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|---|---|---|
| Austria ... Sch. 18 | Indonesia ... Rp 2500 | Portugal ... Esc 80 |
| Bahrain ... Din 0.650 | Italy ... L 1300 | S. Arabia ... Rls 6.00 |
| Belgium ... BFr 42 | Japan ... Y550 | Singapore ... S$ 4.10 |
| Canada ... C$1.00 | Jordan ... Fils 500 | Spain ... Pta 110 |
| Cyprus ... C£0.60 | Kuwait ... Fils 500 | Sri Lanka ... Rup 30 |
| Denmark ... Dkr 7.25 | Lebanon ... £L 8.00 | Sweden ... Skr 6.50 |
| Egypt ... E£1.00 | Luxembourg ... LFr 42 | Switzerland SFr 2.20 |
| Finland ... Fmk 8.00 | Malaysia ... Rm 4.25 | Taiwan ... NT $95 |
| France ... FFr. 8.00 | Mexico ... Pes. 300 | Tunisia ... Din 0.600 |
| Germany ... DM 2.20 | Morocco ... Dh 6.00 | Turkey ... L 210 |
| Greece ... Dr 70 | Netherlands ... Fl 2.50 | U.A.E. ... Dh 6.50 |
| Hong Kong ... HK$ 12 | Norway ... Nkr. 6.00 | U.S.A. ... $1.00 |
| India ... Rup. 15 | Philippines ... Pes. 20 | |

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,800 Monday December 9 1985 D 8523 B


**Statistical trends: US dollar makes swift retreat, Page 5**

World news | Business summary

## UK aims for 1987 Channel link start

**The British Government is aiming for a 1987 start on a fixed cross-Channel link between England and France.**

Transport Secretary Nicholas Ridley is expected to give this deadline when he opens a full debate on the link today in the House of Commons.

Ha is likely to encounter strong opposition from both sides of the House. Mr Ridley will make clear that the British Government has made no decision on which of the four main contenders for the contract it favours.

### Mugabe accusation

Zimbabwe Prime Minister Robert Mugabe accused South Africa of massing troops on the border, and declared his country stood ready to repel any invasion.

### Post office blast

A bomb blast in a post office south of Durban injured eight people. Police blamed the African National Congress.

### No joint ticket

Philippines opposition spokesman Salvador Laurel dashed hopes that he would agree to share a ticket with Mrs Corazon Aquino, widow of the opposition leader murdered in 1983, in presidential elections set for February. Page 2

### Cerezo for leader

Voters in Guatemala were expected to elect Vinicio Cerezo, the Christian Democrat leader, as the country's president in yesterday's run-off election.

### Guyana elections

Guyana voters go to the polls today in the fourth national election held since independence in 1966.

### Gujarat arrests

Police in the Indian city of Ahmedabad arrested 11 protestors and increased security before today's planned strike over policies against minorities in the western state of Gujarat.

### German spy swap

East and West Germany have exchanged convicted spies in the first stage of a swap involving other countries, including the Soviet Union, the West German newspaper Bild said.

### South Asia links

South Asian leaders have boosted links between their countries with a newly formed association for regional co-operation Page 2

### Lennon vigil arrests

Moscow police arrested four people when they broke up a vigil of around 25 peopla commemorating the fifth anniversary of the death of former Beatle John Lennon.

### Easier extradition

Britain is to relax its extradition rules to make it easier for foreign countries to recover suspects for trial.

### Nobel questions

Joint winner of the 1985 Nobel Peace Prize, Yevgeny Chazov, was expected to face severe questioning about the plight of dissident physicist Andrei Sakharov when he arrived in Oslo for the award ceremony.

### Marceau seriously ill

Mime artist Marcel Marceau is reported to be in a serious condition in a Moscow hospital where he underwent an emergency operation for a perforated stomach ulcer.

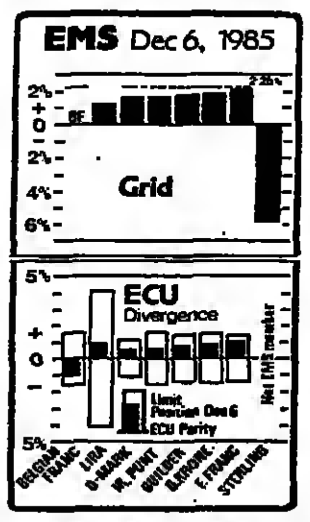
### Bolivia sells ship

Bolivia decided to sell for scrap its navy's only ocean-going vessel because the ship was too expensive to maintain.

## ITC's creditors prepare for claims

INTERNATIONAL Tin Council's creditors are amassing legal arguments for claims if efforts fail to resolve the world tin crisis, which has halted trading in the metal on the London Metal Exchange, and the issue ends up in court. Page 12

THE ITALIAN lira relinquished its position as the strongest member of the EMS last week for the first time since last July's realignment. The lira's place et tha top of the system has only been achieved through several devaluations, and a recent resurgence by the West German D-Mark has exposed the lira's underlying weakness. The German unit was trading at a record high against the lira on Friday. The lira has now been overtaken by the French franc while the Belgian franc remains the weakest member. Further gains by the D-Mark will increase pressure on the weaker members and increase the possibility of another currency realignment.




*The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.*

ITALY'S 1985 current account deficit should be at least $1bn lower than the $7bn originally forecast, according to Bank of Italy Governor Carlo Ciampi. Page 3

ARGENTINA may get up to $2bn in World Bank funds over the next two years as part of an increase in lending to Latin America envisaged in the Baker plan. Page 2

SINGAPORE Government is continuing to promote efforts to rescue Pan-Electric, the debt-stricken marine and property group. Page 12

ISRAELI leaders will seek France's backing in trade negotiations with the European Community when they confer with French External Relations minister Roland Dumas today.

THE WORLD'S first option on the Ecu has drawn respectable demand in its first two days of trading, fuelling the European Options Exchange's battle against London. Page 15

SOUTH AFRICA is hoping for a marked recovery of the rand against the dollar this week after the introduction of exchange control measures which come into operation today. Page 2

DEUTSCHE BANK expects to offer the three core companies in the Flick group for sale to investors possibly as early as March next year. Page 12

A TEXAS judge is due to decide whether to confirm, reduce or set aside a controversial $10.3bn damages award to Pennzoil over Texaco's successful bid last year for Getty Oil Company. Page 12

ULTRAMAR, the UK oil company, is set to spend up to $500m to buy oil exploration and production assets either in Britain or the US. Page 7

MOBIL OIL and the Canadian Government have resolved a protracted dispute over official approval for Mobil's purchase of the Canadian assets of Superior Oil. Page 13

# Distillers dismisses 'disloyal' bank in row over Argyll bid

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

THE DISTILLERS Group, Britain's major whisky manufacturer, has dismissed the Royal Bank of Scotland as its main bank and accused it of great disloyalty for supporting the Argyll food group which last week launched an unwanted £1.8bn ($2.6bn) bid for Distillers.

The Royal Bank is to provide part of the loan financing for Argyll in its bid and Charterhouse Japbet, the Royal's merchant banking arm, is advising Mr James Gulliver, Argyll chairman.

Distillers said yesterday that the Royal Bank's rival, the Bank of Scotland, will take over as principal bank for the parent company and 28 group subsidiaries in Scotland and England with a combined turnover of £500m.

The Distillers board decided to switch banks on Friday, after banking with the Royal for more than 100 years.

Mr Ian Ross, managing director designate of Distillers' Johnny Walker group said yesterday: "The Royal Bank cannot have its cake and eat it. We would not be so naive as to accept the situation meekly as the bank may have imagined.

"Theirs was an act of great disloyalty," he said. The angry tone of the Distillers statement pointed to the aggressive stance the group wanted to assume in opposing Argyll.

"There are many misconceptions about the attitude and performance of Distillers. We want to make clear that we are not prepared to be pushed around by any of the parties involved in the bid," Mr Ross said.

A statement from Distillers said that the company had quietly prepared e determined and aggressive defence "that belied the group's previous low-key reputation."

The Royal Bank of Scotland had no immediste comment on the loss of e substantial client.

Earlier in the week Mr Charles Winter, general manager of the Royal, dismissed any suggestion of a conflict of interest over the Argyll bid. He said banks often found themselves on both sides of a takeover.

The banking changeover also shows the importance each side has placed in its Scottish connections.

The Distillers announcement may be a sign of the times for the banking sector, which has rarely seen any of its members dismissed like this. But with the formation of large financial conglomerates, more companies may object to possible conflicts of interest between the various financial services of their banks.

Mr James Gulliver, the Scottish chairman of Argyll, said last week that he would set up a new joint headquarters for his enlarged group if the takeover was successful. Argyll has its headquarters in London and, although Distillers' official headquarters are in Edinburgh, its important export operations are conducted from London.

Later today Distillers' representatives will meet the Scottish Trades Union Congress (STUC) in Glasgow to discuss the bid. The STUC requested the meeting after news of the takeover bid.

The Bank of Scotland said last night thet it had acted as bankers for a number of Distillers' subsidiary companies and that it was pleased to assume the position of the company's principal banker. Discussious are expected this week between the banks on carrying out the changeover.

Continued on Page 12

Lex, Page 12

# GEC plans to go ahead with offer for Plessey

BY IAN RODGER IN LONDON

THE GENERAL Electric Company of the UK might launch its proposed £1.16bn ($1.72bn) takeover bid for Plessey as early as today.

Mr James Prior, GEC chairman, wrote to Sir John Clark, the chairman of Plessey, at the weekend that Plessey's counter-proposal to take over GEC's interest in the System X telephone switching system, was "unacceptable."

GEC's intention was therefore "to proceed with an offer to the Plessey shareholders as soon as possible." He said the bid would be on the lines indicated by GEC last Tuesday, that is, valuing Plessey shares at 160p each.

Mr Prior used the letter to argue that the takeover would be a "constructive and significant step" towards improving the prospects of the entire UK electronics industry.

He said GEC had long been convinced that a more radical solution than that proposed by Plessey was "urgently needed to the problems currently confronting not only telecommunications but indeed the entire electronics industry in the United Kingdom.

"We believe your view of the prospects of achieving significant profitable growth in the years ahead, as expressed in your public announcement, is unduly optimistic. In overseas markets, you and we, as separate companies, are minor players at best. As a fully integrated business, we can start to make some impact in Europe and the US where both our achievements so far have been limited."

Mr Prior recalled that GEC and Plessey ranked eighth and eleventh respectively in the world telecommunications equipment industry league table, well behind the giants, AT&T, GTE and ITT of the US, Siemens of West Germany, Nippon Electric of Japan and Northern Telecom of Canada.

He said the arguments for integrating the public switching operations of the two companies were well understood, but there were equally strong arguments for bringing together their interests in other types of telecommunications equipment.

In transmission, British Telecom, the leading UK customer, was seeking a more close-knit relationship between its suppliers before committing itself to the use of optical technology in the local network and into subscriber premises.

In private systems, the concentration of resources by UK producers on a new PABX (private automatic branch exchange) was necessary for success in world markets. In subscriber equipment, amalgamation would provide the best opportunity for successful competition against imports and for expansion of exports.

Moreover, all sectors of the business were becoming more interrelated and so any sale by GEC of its interest In Sytem X would weaken the group's overall telecoms capability.

On System X itself, Mr Prior said development of it and subsequent systems would require extensive financial resources "which Plessey, by itself, is in a far weaker position than GEC to provide."

He suggested that a GEC takeover of Plessey would yield important benefits in defence electronics as well. "Integration of our businesses can eliminate wasteful duplication in R&D and provide the Ministry of Defence greater value for its expenditure in this field."

Lex, Page 12

# UK Cabinet still divided on European rescue for Westland

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

DIFFERENCES between UK Defence Secretary Mr Michael Heseltine and Mr Leon Brittan, Trade and Industry Secretary, over whether the future of Westland, the financially troubled helicopter company, should be secured through an all-European effort or by links with a US conglomerate remain unresolved despite formal Cabinet meetings on the issue last week.

The differences are being seen as a serious obstacle to the speedy resolution of Westland's immediate difficulty.

The company's preliminary results for the year ending September 30, which were due this week, look like being delayed at least until next week while the board seeks clarification of government intentions.

The Government apparently remains adamant that there is no question of direct aid to bail out Westland. But while Mr Heseltine favours a solution involving the buy-out of e minority shareholding in the company by three European helicopter concerns, Mr Brittan believes strongly that Westland should be left free to pursue the solution it favours: links with Sikorsky, the US subsidiary of United Technologies.

After encouragement from Mr Heseltine – who believes that the Westland dilemma presents a unique opportunity for rationalisation of overcapacity in the European helicopter industry – Aerospatiale of France, Messerschmitt-Bölkow-Blohm of West Germany and Italy's Agusta, made a formal proposal to Westland, that was discussed by representatives of the companies and Westland last week.

The European proposal is backed by a memorandum of understanding that was drawn up by the armaments directors of Britain, France, Germany and Italy 10 days ago. In it, the governments agreed that in future they would buy only European helicopters and would rationalise the range of helicopters to be produced.

Sir John Cuckney, who since June has been charged with Westland's rescue, said in a statement last week that be believed the document still had to be ratified by the governments. He indicated that negotiations were already far advanced with Sikorsky on a proposal, which, it is believed, would also involve capital from Fiat of Italy.

Beyond the fact that both the European and Sikorsky proposals involve the foreign companies in taking a 29.9 per cent share of the British company, few details of the rival offers are known.

Westland officials privately bave made known their preference for the Sikorsky solution, because they feel the strength of the US company might offer the work, or at least the large cash injection that Westland needs in the short term, as well as longer-term stability.

Westland's board is sceptical that the European solution can work.

Westland faces a gap in its order book before production begins of a naval and utility helicopter in the early 1990s.

# New Delhi applies for Bhopal hearings in US

By Terry Dodsworth in New York

THE INDIAN Government has told e Manhattan court that damages claims arising out of the Bhopal gas disaster in Indie should be heard in the US because the reletives of the 2,000 victims of the fatal leakage could not receive a fair trial in their own country.

In a filing believed by lawyers to be unique, the Government said that courts in India are operating with a huge backlog, and that the Indian legal system does not have satisfactory procedures to deal with the kind of litigation involved in the case.

More than 150 damages claims involving a sum of over $100bn have been filed in New York against Union Carbide, the Connecticut-based company which ran the Bhopal plant. Product liability lawyers bave chosen to make their main assault on the group in the US because of the conviction that the American courts would make higher awards to the victims than their Indian counterparts.

The Federal district court judge in Manhattan who is hearing the case is due to make a decision on where to try the claims early next year. In e complex litigation struggle between the company, the private lawyers who have consolidated the claims of individual victims, and the Indian Government, Union Carbide has continuously pressed for a settlement in India on the grounds that that is where the accident took place.

The Union Carbide case is being closely followed by international companies because of its general implications in product liability law and the operation of overseas subsidiaries.

So far, the company's main strategy seems to have been aimed at taking the issue out of the courts altogether by the arrangement of a private settlement with the Indian Government. Although this solution to the problem has been rejected up to now, some lawyers believe that it is still a strong possibility, particularly if the Manhattan court refuses to hear the case.

There were also suggestions at the weekend that the Indian authorities were anxious to keep hearings located in the US because they themselves face litigation in India over testing and safety procedures

The other main issue emerging in the case is the question of responsibility for control of the Indian plant, in which Union Carbide held a stake of just over 50 per cent. According to the filing of the Indian Government, which had forced through the "Indianisation" of the plant, the US parent exercised control over the Indian subsidiary

# Ex-chief of Carrian held in Hong Kong

BY DAVID DODWELL IN HONG KONG AND WONG SULONG IN KUALA LUMPUR

MR GEORGE TAN, the former chairman of the collapsed Hong Kong property and shipping group Carrian Investments, and two associates have been arrested in the UK colony on charges of bribery and conspiracy to defraud.

The charges are in connection with about HK$6bn ($768.7m) in bad loans made to Carrian, which failed in 1983, by Bank Bumiputra, Malaysia's largest bank. The bank was rescued from the verge of collapse in September by a US$1bn injection from Petronas, Malaysia's national oil company.

Meanwhile in London, two former executives of Bank Bumiputra's Hong Kong subsidiary, Bumiputra Malaysia Finance (BMF), were arrested at the weekend. Mr Lorrain Esme Osman, the former chairman of BMF and Mr Hashim Sbamsuddin, e former director, bave been remanded until December 16 on a Hong Kong extradition warrant.

They face charges in the colony of bribery and conspiracy to defraud in connection with the Carrian affair.

A Malaysian committee that has been investigating the loan scandal for 23 months says, in a 1,075-page report to be handed to the Malaysian Government today, that most of the loans made by BMF to Carrian ended up in two dollar companies registered in Liberia.

The arrests at the weekend came almost a year after the committee, which was beaded by Mr Ahmad Noordin, the country's auditor general, called on the Hong Kong authorities to investigate allegations of corruption against former BMF executives.

At a press conference in Kuala Lumpur yesterday, Mr Noordin described the activities of Carrian as "a giant juggling trick of corporate assets." He said more Malaysians were involved but he had been asked by the Hong Kong euthorities not to release further findings before arrests were made.

The co-ordinated effort between Hong Kong and Malaysian officials is seen in Kuala Lumpur as part of the Malaysian Government's desire to demonstrate that it was not involved in e cover-up of the scandal and would allow the law to take its course. General elections are expected early next year and the Government does not want the scandal to be a big electoral issue.

Mr Tan and Mr Bentley Ho, a fellow Carrian director arrested at the weekend, bave already been charged with three other people of conspiracy to defraud Carrian shareholders. The trial of that case is due to begin next February.

Mr Tan faces 23 new charges, nine alleging conspiracy to defraud BMF, seven alleging that he offered advantages to the chairman of BMF and a further seven alleging that be

Continued on Page 12

# Fabius puts an end to resignation rumours

BY DAVID MARSH IN PARIS

MR LAURENT FABIUS, the French Prime Minister, has confirmed that be will remain in office until general elections next March, putting at least a temporary end to rumours that he was about to step down.

Both Mr Fabius and President François Mitterrand, who disagreed over the visit to Paris last week of Gen Wojciech Jaruzelski, the Polish leader, made clear at the weekend that they wanted to bury the hatchet.

Signs of open disagreement between the President and Prime Minister – a rarity under the Fifth Republic – emerged last week when Mr Fabius told the National Assembly that be was "personally troubled" by the Polish leader's visit, used by Warsaw to show that the Polish military regime had now won acceptability in the West.

Mr Fabius was rumoured to have offered his resignation to President Mitterrand during the latter's visit to the French Antilles last week, but had it turned down.

Mr Fabius, who bas been criticised within the Socialist Party for playing up his differences with Mr Mitterrand over the affair, said at the weekend that there was no question of going back on his "responsibilities." Many political commentators believe the disagreement bas been deliberately turned into a public spectacle as part of Mr Mitterrand's efforts to show that he could "cohabit" with a Prime Minister of different political persuasion after the general elections, which are expected to give the right e majority in the National Assembly.



CONTENTS

# Philippine opposition fails to agree on election policy

BY SAMUEL SENOREN IN MANILA

A CRUCIAL attempt by two major Philippine opposition groups to merge and field a single presidential and vice-presidential slate to challenge President Ferdinand Marcos in the February 7 elections appeared to have collapsed just three days before the December 11 deadline to register candidacies.

Mr Salvador Laurel, 57, who heads Unido, the largest opposition group, announced yesterday he was filing his candidacy for president with the Commission on Elections after failing to come to terms with Mrs Corazon Aquini, who has already declared herself a presidential candidate.

In a Press conference attended by Unido leaders from various parts of the country, Mr Laurel said he had offered to run as Mrs Aquino's vice president, provided they run under the Unido ticket.

Mr Laurel's condition was rejected by Mrs Aquino, 52, who claimed she was "originally endorsed and therefore committed to run under the Laban NG Bayan." Laban is a coalition of the reactivated Liberal Party and six other smaller regional parties.

Mr Laurel, son of Wartime president Jose Laurel Sr, planned to have Unido accredited by the Commission on Elections as the dominant opposition party in the polls. This would entitle the party to field election inspectors to make sure votes and election returns are counted properly.

Mrs Aquino . . . facing political division

Such accreditation helped Unido win nearly a third of the 183 seats in the parliamentary election last year.

"It is that winning capability which is now the strongest reason for its accreditation as the dominant opposition party in the coming presidential elections," Mr Laurel said.

In a press conference held much later, Mrs Aquino said that while she was grateful for Mr Laurel's offer, she could not agree to his terms.

Mrs Aquino, widow of the murdered opposition leader Mr Benigno Aquino, countered with a formula that she and Mr Laurel run under a grand coalition to be called Unido-Laban which is to be registered with the electoral commission.

Mr Laurel spurned the idea, saying he could not "sacrifice my party and my principles." Both agreed, however, that Mr Marcos' regime should be defeated and dismantled, and that they should join forces.

Despite the impasse, Mrs Aquino was optimistic that "we who offer ourselves as the hope of this nation will rise to the occasion

Both are aware that Mr Marcos stands a good chance of getting re-elected if two major opposition candidates are fielded.

Although Mrs Aquino is an emotional favourite, it is now possible that she might withdraw from the race if Mr Laurel goes ahead and files his candidacy for the presidency. Mr Laurel, though, said there was still a possibility of agreement with Mrs Aquino.

# Labor wins lead in S. Australia elections

By Michael Thompson-Noel in Sydney

A COMMANDING win for the Australian Labor Party in the South Australian state election at the weekend has raised a big question over the future of Mr John Howard, the federal opposition leader.

The swing to Labor in South Australia was approximately three points, giving it a clear-cut majority.

Mr Howard has led the federal Liberal Party for only three months, but has failed to project himself as a rugged enough opponent for Mr Bob Hawke, the Labor Prime Minister, who has predicted Mr Howard's replacement as Liberal leader before the next federal election.

The South Australian election was the first test of Mr Howard's policy approach on issues such as privatisation of government enterprises.

Mr Howard said: "Australians have a long history of voting differently at state and federal levels and Mr Hawke would do well—as would his colleagues—to remember that

In Canberra, Mr Hawke's federal government has recovered lost poise after a series of gaffes earlier this year.

Now back on the offensive, Labor is arguing that its social reforms "stand with our economic successes as the rich dividend of mainstream Labor Government."

# South Asia leaders boost links

BY JOHN ELLIOTT IN DHAKA

LEADERS of the seven countries of South Asia launched a new era of co-operation at the weekend in the Bangladesh capital of Dhaka when they held their first summit since British rule of most of the area ended in the 1940s and launched the South Asian Association for Regional Co-operation (SAARC).

Representing India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives, an area which accounts for one-fifth of the world's population, they decided to repeat the summit every year and to meet in Delhi and the Bhutanese capital of Thimpu next November and in 1987.

The seven kings, presidents and prime ministers appeared to have surprised themselves and their delegations by spending two days together, without any significant rows, after decades of bitterness and battles.

They also decided to arrange more frequent meetings of foreign ministers and officials, and to set up study groups on how they could tackle international terrorism, which will presumably include the activities of Sikh and Tamil extremists in India and Sri Lanka, and drug trafficking.

In addition, ministers are to try to form a common view on issues like the north-south economic dialogue and General Agrement on Tariffs and Trade (Gatt) trade policy, and are to expand work already started by technical experts in nine areas, including transport, telecommunications, postal services, meteorology health and family planning, argriculture and sports.

They left aside their many bilateral differences and the fear and jealousy of India, the largest country involved, which have developed in the past 4/ years.

Each of the countries has a border dispute or other political difference with one of the others and most have long-standing disputes with India, which aggresively dominated the region when Mrs Indira Gandhi was Prime Minister until her assassination 13 months ago. The smaller countries fear economic domination by India

Mr Rajiv Gandhi, who succeedded his mother as Indian Premier, has said he knows he will be judged by how well India gets on with its neighbours.

# Go-ahead for mining project

By Our Sydney Correspondent

A GO-AHEAD for development of the giant Olympic Dam uranium-copper-gold find at Roxby Downs in South Australia was announced yesterday by the partners, Western Mining Corporation and BP Australia.

Because of low metal prices, Olympic Dam—thought to be the world's biggest uranium discovery—will be developed on a smaller scale than originally envisaged.

The initial cost will be about A$600m (£300m), with an initial production target of 2,000 tonnes of uranium, 55,000 tonnes of copper and 90,000 ounces of gold. Production is due to start in 1988.

Stewart Fleming assesses the chances of Washington's 'leap in the dark'

# Launch for US budget reform

THE MOST radical reform of the current congressional budget process since its establishment in 1974 is on the legislative launching pad on Capitol Hill and could well be signed by President Ronald Reagan by Thursday.

> US Treasury Secretary James Baker said yesterday that he would recommend President Ronald Reagan to sign into law the proposed Budget Reform Bill which now seems to be moving rapidly through Congress.
>
> An agreement in principle on the Bill, which was welcomed by the White House, was reached on Friday. A conference committee of the House and the Senate is scheduled to meet today to resolve some remaining details, after which the Bill is expected to clear Congress.
>
> The Bill is tied to legislation to increase the federal government's debt limit to just over $2 trillion (million million) which must be approved by Wednesday night to permit the Government to fund itself on a normal basis in the financial markets.

The plan calls for the elimination of $212bn (£143bn) federal budget deficit by 1991. But even its advocates concede that it is a leap in the dark which may not achieve that ambitious goal. It will probably do little to bring about a reduction in the 1986 fiscal year budget deficit and there are growing fears that it may even increase the 1986 budget deficit. Mr James Miller, director of the President's budget office, predicted last week that the 1986 deficit may once again rise over $200bn.

With that prospect in mind plus the new budget timetable proposed by the reform plan, some budget experts on Capitol Hill are predicting that the nation will face a fiscal crisis in the run up to next November's mid-term congressional elections.

In some ways the reform plan represents an evolution from the current budget-making process which came into effect in 1974. But it also contains a number of dramatic, some are arguing unconstitutional, innovations.

One is that it sets specific dollar targets for eliminating the budget deficit by 1991, starting with a goal of $172bn in the current fiscal year and dropping steadily from $144bn in fiscal year 1987.

The procedures at the beginning of the calendar year will be much the same as they are now with the President submitting bis budget, probably early in February. He then sends it to Congress, which sets about reshaping the Administration's fiscal priorities to fit its own interpretation of political reality.

Congress would then have until the beginning of the next fiscal year on October 1 to draw up a budget which meets the deficit target laid down by the Budget Bill. Should it fail (and in theory it could reach the target by cutting spending or raising taxes) then the President is given the authority to make automatic spending reductions in order to achieve the deficit target. But the uncertain art of budget forecasting is dependent on economic projections coming out right, so the new budget process is likely to be rather less precise in practice than it is on paper.

Advocates of the Bill maintain that the threat of automatic presidential "sequestering" of budget funds and the increase in presidential power this implies will goad Congress into making the tough budget decisions which it has allegedly ducked.

Sceptics retort that the last thing Congress is likely to do in the run-up to next year's mid-term elections is start advocating increases in taxation or radical cuts in government spending. If, as many suspect, the deficit for 1986 remains around the $190bn-$200bn level, then automatic spending cuts of $50bn-$60bn would be needed by next October to achieve the fiscal 1987 deficit target, hence the forecasts of a pre mid-term election fiscal crisis.

Sparks would be flying in Congress early next year, when the reformed budget system is due to come into effect, were it not for the fact that the Bill has been carefully drafted to avoid having any dramatic impact on the budget in the tcurrent fiscal year.

Assuming it becomes law, the first automatic budget cuts are due to be made (to the 1986 budget) on March 1. But the Bill as drafted limits them to only about $12bn. That restriction makes it highly unlikely that Congress this week will approve all the $55bn or so of planned deficit reductions proposed in its current budget resolution.

But the political insurance that has been taken out by all parties to the budget-making process is more far-reaching. Major segments of the budget are excluded from any cuts. Social security, existing contractual commitments and interest on the federal debt are some of the biggest items. The President, it seems, is likely to win the flexibility he wants on defence spending (the $12bn of cuts for 1986 will be split 50-50 between defence and domestic budget programmes).

The Democratic leadership has in the past few days been able to secure the exclusion from any automatic cuts of several major programmes for the poor. At one point in October it faced the prospect that a coalition fo Rpublicans and conservative Democrats would sweep aside traditional Democratic political priorities.

The Bill also includes provisions designed to prevent the goals of budget cutting from conflicting with the economic priorities of the day.

It also lays down mechanisms by which Congress could vote to suspend the new system if there were negative real economic growth in two quarters or a protracted period of very slow economic growth.

The attractiveness of appearing to be doing something about the deficit ahead of next year's elections is helping to rally what appears to be enough support to see the reform Bill passed. What happens then is a mystery which will begin to unfold next year.

# Nicaragua conflict expected to widen

THE suspension of the Contadora peace talks until May next year will lead to a sharpening of the military conflict in Nicaragua, according to Western diplomats in the Nicaraguan capital, writes Tim Coone in Managua. The suspension of the talks was announced by Colombia at the weekend after Nicaragua said "the minimum conditions of security" did not exist to enable it to continue with the final stages of negotiations on a regional peace treaty to be signed by the five central American states.

## UAE ponders meeting

Leading Sheiks in the United Arab Emirates were last night discussing whether a meeting of the country's supreme council of rulers scheduled for today should take place, Kathy Evans writes from Abu Dhabi.

The council has not met for nearly 18 months and expectations were high that the Sheikhs would take pressing decisions required on the country's political and economic problems. No agenda has been published for the meeting, but the financing of the federal budget and the constitution are expected to be the main subjects for discussion.

## Taiwan retaliates

Taiwan has suspended diplomatic relations with Nicaragua following the Central American nation's announcement at the weekend of its intention to recognise Peeking, writes Bob King in Taipei.

The move ends a longstanding anomaly by which Taiwan, which normally refuses to deal with Communist powers, has maintained relations with Managua since the Sandinistas came to power. Taiwan had declined to break off ties because so few nations—now only 23—recognise it.

## Paris bomb theory

French police believe two bombs which injured 35 people in two Paris department stores on Saturday may have been planted by individual extremists rather than an organised terrorist group, writes David Marsh in Paris.

A total of 18 people, including store assistants, shoppers and firemen, were still being treated in hospital yesterday

## US-Romanian talks

Mr George Shultz, the US Secretary of State, will discuss the rising opposition in Congress and the Administration towards Romania's most favoured nation (MFN) trading status when he visits Bucharest next week, writes Nancy Dunne in Washington.

## Travel curb move

In the wake of several highly publicised espionage cases, the US State Department is seeking tighter travel control for visitors from Communist countries, our Washington Staff write. Citizens of East Germany, Poland, Czechoslovakia and Bulgaria will in future have to make travel arrangements through the State Department.

# Cerezo likely to lead Guatemala

BY DAVID GARDNER IN MEXICO CITY

GUATEMALAN VOTERS were yesterday expected to elect Mr Vinicio Cerezo, the Christian Democrat leader, as the country's new civilian President, bringing to an end 31 years' rule by the military and extreme right-wing.

Yesterday's vote was a run-off after a first round of polling on November 3 failed to produce any candidate with an overall majority, although the centre-right Christian Democrats did win a majority in Congress.

In the first round, Mr Cereazo took 40 per cent of the vote against just over 21 per cent for his nearest rival, Mr Jorge Carpio, a right-wing newspaper publisher whose National Union of the Centre (UCN) Party was an attempt to regroup Guatemala's far right under a more moderate image.

Mr Carpio failed, despite lavish spending on what the US Embassy in Guatemala City enthusiastically described as the country's first modern political campaign, and even though initially he had sectors of the military hierarchy behind him.

Mr Carpio's hopes for the second round rested on persuading the traditional right that Mr Cerezo was a Kerensky who would open the door to Communism, currently personified by the left-wing insurgency that has been fighting the regime for 20 years, and which has shown renewed vigour in recent months.

But the right's fear of Mr Cerezo's mild reformism appears outweighed by their perception of Mr Carpio as a parvenu and opportunist.

Neither Mr Mario Sandoval, veteran leader of the neo-fascist National Liberation Movement, nor Mr Jorge Cerrano, a born-again Christian, who had promised to forge Guatemala's myriad evangelical sects into a powerful electoral force, have pledged their votes—about a quarter of the first-round tally—to Mr Carpio.

Abstention is therefore expected to rise among the potential 2.75m voters, who in any case, traditional wisdom has it, tend to swing behind the winner once one has clearly emerged.

A Christian Democrat victory will be welcomed by the US.

# S. Africa hopes for recovery of rand as controls tighten

BY TONY ROBINSON IN JOHANNESBURG

THE South African authorities are hoping for a marked recovery of the rand against the dollar and other major currencies this week following the introduction of additional exchange control measures which come into operation today.

The new measures announced on Friday night are designed to increase the flow of foreign currency into the exchange market and the reserves by obliging exporters to repatriate foreign earnings within seven days of shipment payment and abolishing the system under which gold mines were paid half in rand and half in dollars. From now on the mines will be paid entirely in rand for their gold bullion sales to the Reserve Bank, so eliminating the seven day grace period which the mines formerly enjoyed before they were obliged to sell their dollars.

The restrictions also include new rules to stop capital export through personal trusts. They represent a tightening up of existing regulations rather than fundamental changes in the system.

The limited nature of the new restrictions indicates that the Reserve Bank has thus far successfully resisted calls by Saanlam, the Afrikaner insurance giant, Volkskas and others for a tougher package consisting of import controls, a pegged currency and even wage and price controls in view of the essentially political nature of the current financial crisis.

Reserve Bank Governor Gerhard de Kock indicated last week that the Government is now aware of the need for political reforms which satisfy South Africa's foreign banks if the rand is to stage a permanent recovery. But the hope is that in the meantime the latest restrictions will boost the rand above the 40 US cents level.

Meanwhile a police decision to heed requests from local black residents and maintain a low profile allowed two potentially volatile mass funerals of unrest victims to pass off quietly at Queenstown in the Eastern Cape and at Mamelodi near Pretoria over the weekend.

Later on Saturday night, however, police reported fatally shooting a black man in Mamelodi after a group of blacks set fire to the house of a local policeman and petrol-bombed another.

# Argentina may receive up to $2bn World Bank aid

BY JIMMY BURNS IN BUENOS AIRES

ARGENTINA may receive up to $2bn (£1.4bn) in World Bank funds over the next two years as part of an increase in multinational lending to Latin America envisaged in the Baker Plan for helping with Third World debt.

This emerged in Buenos Aires during the weekend at the start of an official visit by the bank's chairman, Mr Tom Clausen, aimed at sounding out Argentina's external financing needs for its $48bn debt.

Acknowledging the way in which World Bank lending to Argentina has fallen off recently, Mr Clausen said that over the past two years, only $180m had been disbursed.

But $300m-$400m had been earmarked for fiscal year ending June 1988, along with a further $500m-$1bn in 1987.

The total figure could be boosted to $2bn over the next two years.

Mr Clausen played down the suggestion that Argentina had been singled out as a "test case" for the Baker Plan, in apparent deference to the Argentine Government's public coyness about being brought under the US umbrella less than a week away from a meeting of Latin Ameria debtor-countries in Montevideo.

"The Argentine Government should be congratulated on stabilising the economy," Mr Clausen told the local press.

It is understood that World Bank funds being considered will be channelled less towards project-financing, as in the past, and more towards specific sectors of the local economy as part of the Argentine Government's plans for growth-oriented structural reforms.

One idea being mooted is that the World Bank should provide funds for retraining an estimated 20,000 bank personnel who may lose their jobs if the Government pushes ahead with its plans for the closure of an estimated 100 local financial institutions.

# Opec unable to agree on output level

By Richard Johns in Geneva

A CONSENSUS hardened at the meeting of Organisation of Petroleum Exporting countries here this weekend that members should give priority to restoring market shares rather than maintaining prices.

They were unable to agree, however, on a production level. Figures discussed were understood to have varied from 16.5m barrels a day to 20m b/d compared with the agreed, but highly notional ceiling of 16m b/d. Members actual output is probably now running at over 15m b/d.

Opec's failure to agree a figure stems partly from resentment over the large proportion conceded to Saudi Arabia under the formula set in March 1983. Under the present ceiling Saudi Arabia is allowed 4.35m or 27.2 per cent of the total.

Opec lurched a little closer to adopting the concept of a price war with other producers, especially the UK.

Yesterday Dr Tam David-West, Nigerian Minister of Petroleum Resources, would meet "the threat posed" to his country's livelihood "barrel by barrel and cent by cent."

Nigerian crudes compete directly with those of the North Sea and Dr David-West's confrontational stance is not shared by the Opec majority, especially those members most committed in the past to price maintenance at all costs—Algeria, Libya, Iran and Venezuela.

Last night it looked as if Opec might postpone any decision and leave it to a committee of experts to decide upon what market share should be, and how it might be divided.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main. Guiollettstrasse 54, 6000 Frankfurt am Main 1. © The Financial Times Ltd, 1985.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

# Belgrade in bid to revive foreign exchange market

BY ALEKSANDAR LEBL AND DAVID BUCHAN IN BELGRADE

YUGOSLAVIA'S political establishment has finally reached agreement on how to try to revive the country's defunct foreign exchange market and to stop companies from illegal trafficking in hard currency.

This controversial measure, hotly debated all this year by Yugoslavia's republics and provinces, was one of the economic reforms which received final legislative approval over the weekend. The other laws govern changes in import regulations and external credit relations.

Agreement on the new foreign exchange law came after the country's two most export-oriented republics, Croatia and Slovenia, dropped—under political pressure to obtain a consensus—their objections to the new law's requirement that exporters sell 100 per cent of their earnings onto the foreign exchange market.

Many sceptics—the International Monetary Fund is believed to be among them—fear the 100 per cent surrender requirement will reduce incentives for exporters, while the new foreign exchange market will be so arranged that it will be far less flexible than the existing "grey market" in hard currency.

These reforms are supposed to leave the economy in better shape, when the IMF's standby programme ends next May.

But some aspects of the programme are worrying Belgrade, even though that programme has only five more months to run.

The main irritant is linking interest rates to the soaring inflation level, which this year is between 70 and 80 per cent.

Mr Borisav Srebic, Vice-Premier in charge of the economy, said that the Government would not unilaterally change its interest rate policy.

Any change, he said, would be negotiated with the IMF, which sent a team to Belgrade last week.

The IMF officials are in Belgrade for regular consultations and to outline "enhanced monitoring" by the Fund, to which Yugoslavia has agreed after the standby arrangement expires.

The Government wants only longer-term bank deposits to earn interest indexed to inflation, and to allow interest on deposits of less than one year to drop much lower. The current interest rate on three-month deposit rates is 61 per cent.

# Lower Italian current account deficit forecast

BY ALAN FRIEDMAN IN MILAN

ITALY'S 1985 current account deficit should be at least $1bn (£714m) lower than the L12,000bn (£4.5bn) originally forecast, according to Dr Carlo Ciampi, governor of the bank of Italy.

The central bank chief, speaking at a Rome conference of European savings banks, did not, however, offer a precise figure for this year's likely current account deficit.

Dr Ciampi also said that a further devaluation of the Italian currency, following last summer's realignment of the European Monetary System (EMS), was not imminent. The lira was devalued by 8 per cent against the European currencies in July.

"The measures already taken have been necessary and sufficient," the governor explained, adding that the outlook for the Italian currency was much improved.

Dr Ciampi expressed a note of cautious optimism on the prospects for a decline in the Italian inflation rate.

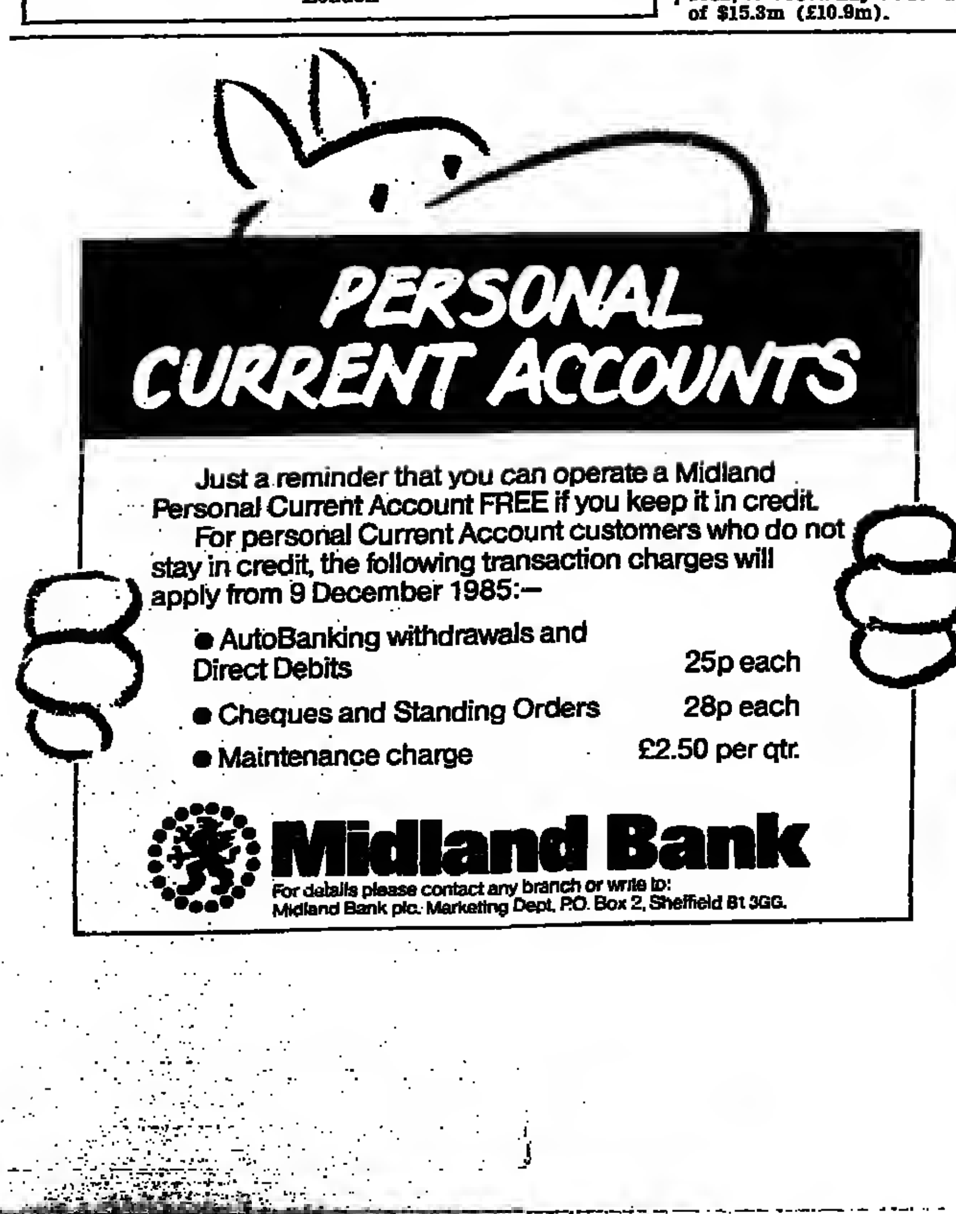
## World Economic Indicators

UNEMPLOYMENT

| | | | | | |
|---|---|---|---|---|---|
| | | Nov. 85 | Oct. 85 | Sept. 85 | Nov. 84 |
| UK | 000s | 3,258.0 | 3,277.0 | 3,346.2 | 3,222.6 |
| | % | 13.5 | 13.5 | 13.8 | 13.3 |
| | | Oct. 85 | Sept. 85 | Aug. 85 | Oct. 84 |
| US | 000s | 8,291.0 | 8,274.0 | 8,127.0 | 8,367.0 |
| | % | 7.1 | 7.1 | 7.0 | 7.3 |
| W. Germany | 000s | 2,148.8 | 2,151.6 | 2,216.6 | 2,144.5 |
| | % | 8.0 | 8.0 | 8.2 | 8.0 |
| France | 000s | 2,504.9 | 2,436.2 | 2,309.9 | 2,515.6 |
| | % | 10.8 | 10.5 | 9.9 | 10.8 |
| Italy | 000s | 2,983.7 | 2,938.4 | 2,854.0 | 2,747.2 |
| | % | 13.1 | 12.9 | 12.5 | 12.0 |
| Netherlands | 000s | 743.4 | 757.6 | 776.7 | 802.6 |
| | % | 13.1 | 13.3 | 13.7 | 14.1 |
| Belgium | 000s | 552.8 | 564.0 | 567.8 | 623.3 |
| | % | 13.4 | 13.7 | 13.8 | 15.1 |
| | | Aug. 85 | July 85 | June 85 | Aug. 84 |
| Japan | 000s | 1,480.0 | 1,450.0 | 1,530.0 | 1,590.0 |
| | % | 2.59 | 2.56 | 2.60 | 2.77 |

Source (except US, UK, Japan): Eurostat






# Buddhist temples go on strike in Kyoto

By Carla Rapoport in Tokyo

TOURISTS to Kyoto, the city with one of the most beautiful collection of Buddhist temples in the world, are to be sadly disappointed. Twelve of the most celebrated temples have gone on "indefinite strike."

According to the Kyoto Buddhists' Association, the Kyoto priests are protesting against an imposition of a municipal government tax on admissions fees of Y50 ($0.25).

"The temples are still open to believers," said the Association's public relations representative yesterday. "But no tourists will be allowed in. We expect we will be closed through the New Year."

Admission fees to the Kyoto temples at present range from around Y200 to Y300. The priests say that the extra Y50 is "morally wrong" and will hurt the chances of the "ordinary people" who want to visit Kyoto's holiest and most beautiful shrines.

Spared by the bombs of World War II, Kyoto has well over 1,000 Buddhist temples, many of them officially designated as national treasures.

Among those now closed are the Golden Pavilion and the Temple of the Silver Pavilion, the former villa of Shogun Ashikaga Yoshimasa, which was built in 1482.

The strike could damage Kyoto's economy if it lasts for more than a few weeks. Tourism accounts for about 25 per cent of the city's income.

The priests are pressing the city government to let them make a "contribution" to city coffers, but not pay taxes directly. Some observers claim that the priests prefer the contribution method because it saves them from disclosing their total income to government authorities.

Meanwhile, the priests said that traditional Buddhist ceremonies will continue to be observed. But Kyoto tourists will have to make do with the less-famous temples for the time being.

SHIPPING REPORT

# Laid-up tanker tonnage falls

Financial Times Reporter

WORLD laid-up tanker tonnage fell by 4m deadweight tons to 46.7m dwt in October, according to the General Council of British Shipping.

This welcome reflection of the increased rate of scrapping in recent months comes after a period of more than a year during which the laid-up tanker tonnage had been stable at around the 50m dwt level.

Laid up dry cargo tonnage was down 6 per cent in October to 11.8m dwt.

Meanwhile, in the tanker market, activity eased as oil prices declined.

However, rates have been maintained in nearly all areas, and Galbraiths are optimistic that the current going rate of Worldscale 35 for 250,000-ton ships from the Middle East to Europe will hold into the new year.

In West Africa, a 120,000-ton vessel was fixed at Worldscale 45 for Europe, and a 65,000-ton one went to the US at Worldscale 85.

A 50,000-ton tanker from the Caribbean to the US went at Worldscale 100, and a 65,000 tonner went to the US from the North Sea at Worldscale 85.

In the bulk carrier markets, grain rates were unchanged but the ore market has produced increases in all trades.

Tankers continue to form the backbone of the sale and purchase market. A Hong Kong-based owner has sold the products sister-ships Eastern Thistle and Cape Thistle, about 30,000 dwt, built in Japan in 1982, to Greek buyers for a total of $15.3m (£10.9m).

# Brussels to boost high-tech links

BY OUR BRUSSELS STAFF

INDUSTRIES and universities are to benefit from a new European Community scheme to promote high technology co-operation.

EEC Ministers of Social Affairs have agreed a plan, costing Ecu65m (£39m) over four years, to provide funds for students seeking to work in industries such as computer science and electronics in a Community country other than their own.

The aim is to foster cross-fertilisation between academics and industry while promoting a European, as opposed to an exclusively nation, approach to high technology.

The Comett programme—the Community in Education and Training for Technology—is intended to benefit up to 10,000 students with fellowships to spend six months in industry.

It is also planned to finance exchanges for employees in industry and university staff in the same field, both for teaching and research.

The programme was approved by the Council of Ministers in record time—under six months from the first proposal from the European Commission to its agreement last week—although it is still subject to a West German query on finance.

The budget of Ecu65m compares with an original target of Ecu80m, and the Ministers also scaled back its duration from seven years to four.

Mr Peter Sutherland, the Irish Commissioner responsible for social affairs in the Commission, said the programme provided "a new dimension in Community action in the area of higher education and industry."

Individual companies and universities had shown their support and given specific commitments, he said.

The scheme fits into the pattern of EEC activity in promoting high technology, as exemplified by Esprit—the pre-competitive research and development programme for information technology, designed to make European industry more competitive in the face of the perceived threat from the US and Japan.

The first phase of the Comett programme will concentrate on five main areas:

- The development of a European network of university-industry partnerships;
- The launching of Community exchange schemes between university and industry, involving students as well as academic and industrial staff;
- The design, development and evaluation of specific joint training and re-training projects involving high technology;
- The promotion of joint efforts between university and industry over university programmes;
- Setting up an EEC data base on industry/university co-operation.

The plan is intended to meet complaints from industry about the lack of a more broadly-based approach by graduates. Companies will be able to demonstrate their needs to students undergoing training, and gain access to university research facilities.

# Malaysia acts to step up oil exploration

BY WONG SULONG IN KUALA LUMPUR

MALAYSIA has announced vastly improved production sharing terms in a bid to attract foreign oil companies to undertake exploration work which has slowed considerably.

Under the new terms, foreign contractors are allowed 50 per cent for cost recovery in the case of oil finds, and 60 per cent in the case of gas, compared with 20 per cent for oil and 25 per cent for gas under existing contracts.

Various initial payments, such as the signature bonus, a discovery bonus of ringgit 2.5m (£74,000) and a production bonus of ringgit 5m for every 50,000 barrels of oil a day are also abolished.

The new terms which have been approved by the Malaysian Cabinet were announced by Mr Daim Zainuddin, the Finance Minister, at an oil conference.

Mr Daim said that after the recovery cost and 10 per cent payment to the Government as royalty, the remaining "profit" oil would be split between the foreign contractor and Petronas, the national oil company.

For the first 10,000 barrels a day, the split will be 50:50. For the next 20,000 barrels, the split will be 60:40 in favour of Petronas. If production exceeds 20,000 barrels, the division will be 70:30 in Petronas' favour.

Under existing contrats, "profit" oil is split 70:30 in Petronas' favour, and 65:35 in the case of gas.

The production-sharing terms were revised because it is generally believed that new oil and gas finds in Malaysia are likely to be comparatively small, and foreign oil companies would not be attracted under the current terms.

Petronas is shortly expected to invite foreign contracts to take up three new concession areas under the revised terms.

# Baldrige hopes to clinch contracts in Moscow

THE US Secretary of Commerce, Mr Malcolm Baldrige, arrived in Moscow yesterday for a three-day trade meeting attended by some 400 US businessmen hoping to use the spirit of the Geneva summit to clinch new contracts with the Soviet Union, AP reports from Moscow.

Mr Baldrige is attending the trade meeting which starts today because the Reagan Administration views trade as "a very good building block for our relations."

In the past, President Reagan has drawn sharp criticism from the Kremlin for his trade policies, including restrictions on imports of high technology, and his 1982 embargo on imports of US technology to build a Siberian natural gas pipeline.

Mr Vladimir Sushkov, the Soviet Deputy Foreign Minister, and Mr Baldrige expressed hope that superpower trade will increase as a result of this week's meeting.

Mr Dwayne Andreas, US co-chairman of the sponsoring Trade Council, said the meeting took place under "a new wave of optimism" following the Geneva summit between President Ronald Reagan and the Soviet leader, Mr Mikhail Gorbachev.

"We are very anxious to open up new channels," he said.

The contingent, of more than 400 senior executives representing 192 US companies is the largest group of American businessmen ever to gather in Moscow at one time.

They will spend three days in conferences and seminars with some 200 Soviet officials from the trade ministries, the State Planning Committee, and state-run foreign trade groups.

Prominent US executives attending include Dr Armand Hammer, chairman of Occidental Petroleum Corporation, and Mr Donald Kendall, chairman of Pepsico Inc.

# US seeks to speed trade row accords

By William Dullforce in Geneva

THE US wants a "quantum leap" improvement in the machinery for settling international trade disputes, Dr Clayton Yeutter, US Special Trade Representative, said yesterday. This would be one of its priorities in the global trade negotiations scheduled to start next year.

The 16-year, unresolved dispute between the US and the European Community over citrus fruits and pasta illustrated the kind of unfair trade practices that Americans would not tolerate, Dr Yeutter said.

He warned that just because President Ronald Reagan appeared to have contained US protectionism for the time being, it should not be taken as a signal by any country that it could let up on its obligation to remove unfair trade barriers.

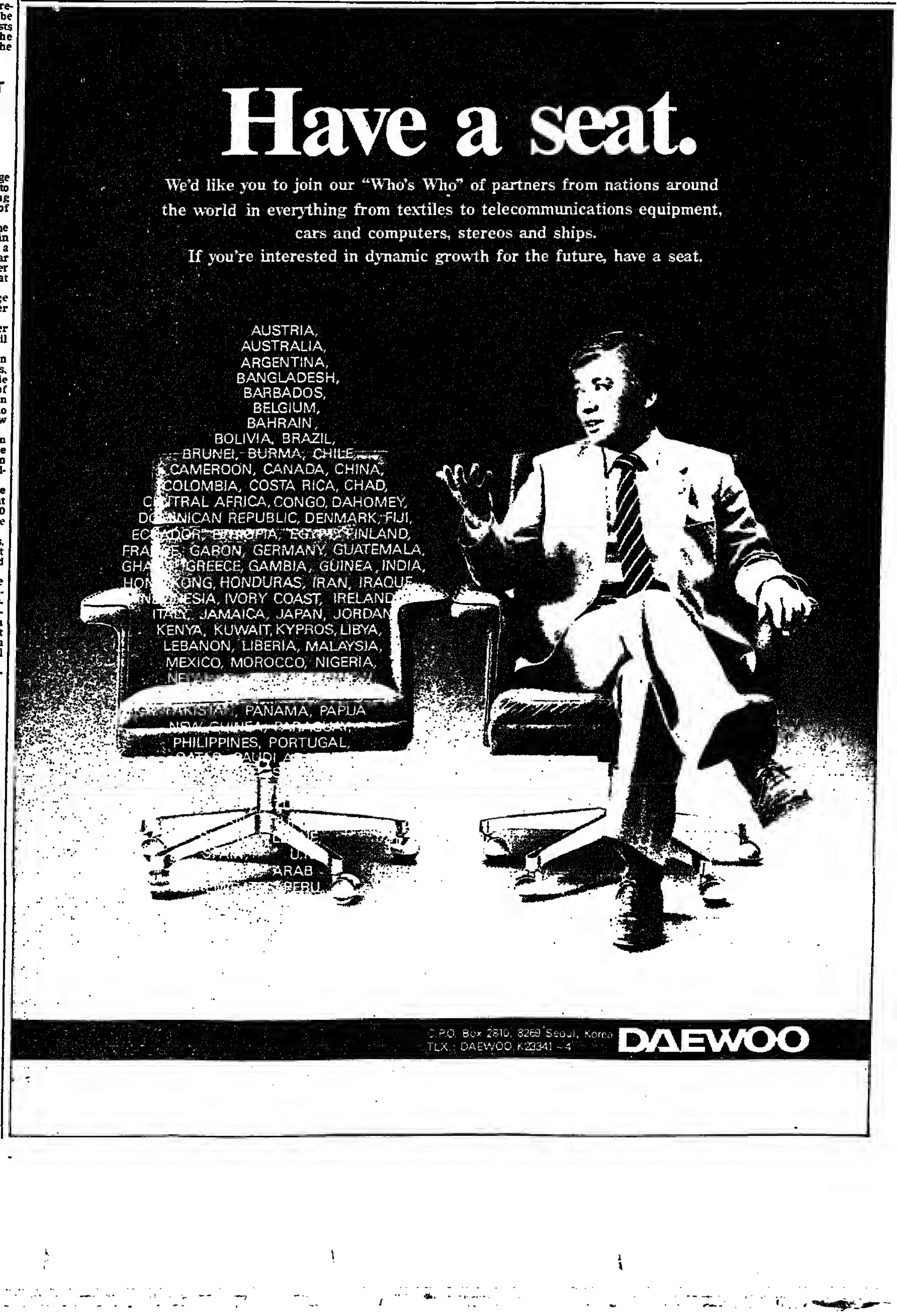
The US had become "more confrontational" in the past few months over unfair trading, Dr Yeutter added.

It was also imperative to deal with the problem of export subsidies in the next round of talks, Dr Yeutter said in a prepared speech to the EMF Foundation (formerly the European Management Forum) in Geneva.

An economic trauma had been created in sugar-exporting countries when subsidised European sugar caused world prices to plummet to 3 cents a pound earlier this year.

European countries and Japan had to take a much larger share of the exports of the least developed countries, if a political explosion was to be avoided, Dr Yeutter said.

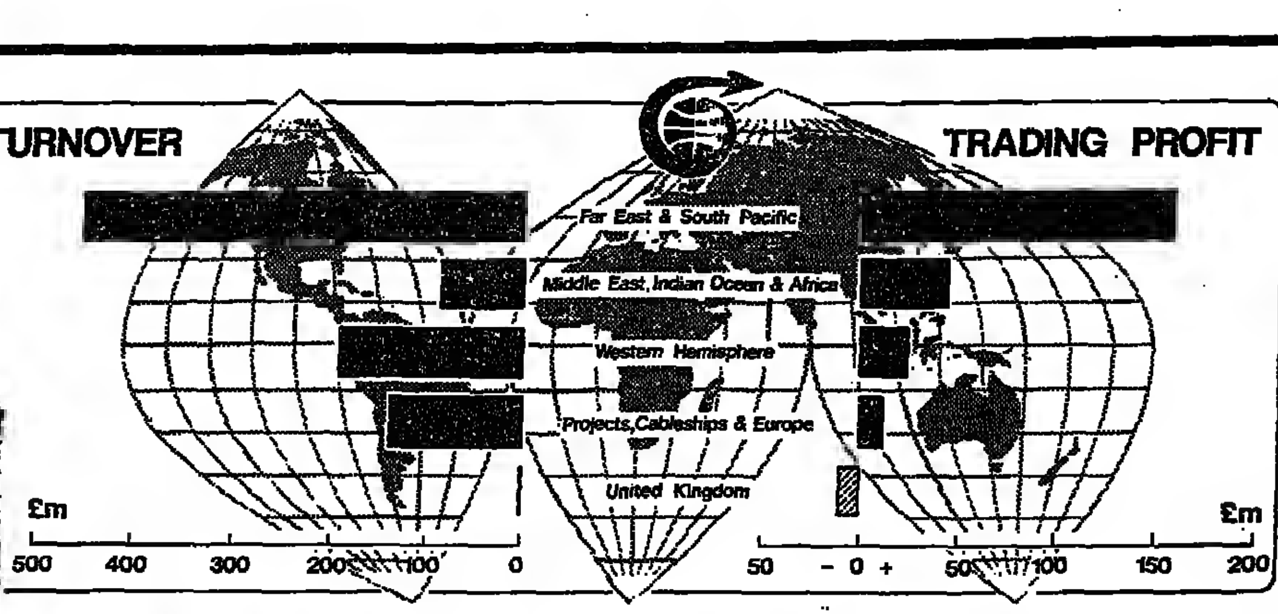
The US could not continue to provide the largest part of these countries' foreign exchange earnings which were indispensable in managing their crushing debt burdens.



# MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

SIR ERIC SHARP




## C & W plugs into commercial reality

**Jason Crisp explains the international ambitions of the UK-based telecomm unications group**

AT THE Ngau Tsu Hok exchange in Hong Kong dozens of young female operators sit at old-fashioned wood-framed switchboards taking bookings for calls to mainland China. Such is the demand that a caller can wait five hours or more for a connection.

When direct dialling was introduced between Hong Kong and Guangzhou, capital of Guangdong province, the telephone traffic between the two doubled in just two months. Unsurprisingly, Cable and Wireless, which runs both the internal and external telecommunications in Hong Kong, is very enthusiastic about the potential growth in the still small amount of telephone traffic to China; it is more than doubling every year.

The success of its activities in Hong Kong has been the main force behind C & W's recent rapid growth. It accounts for the great majority of C & W's business in the Far East which in turn represents 52 per cent of turnover and 70 per cent of group profits. In the four years since it was denationalised C & W's turnover almost trebled and profits nearly quadrupled.

This is all the more remarkable for a company which, until recently, was seen as a rather sleepy and bureaucratic colonial leftover. "The ideal manager used to be someone who could live happily on some distant island, keep his nose clean and the governor happy," says one City analyst.

Now, though, the task the company faces is to change its management style as rapidly as the markets in which it is seeking to build its future are themselves changing.

C & W will briefly go into the record books for making the world's second largest private share offering after British Telecom before it is usurped next year by the sale of British Gas and British Airways. Some £933m is being raised by the sale of the Government's remaining 22.7 per cent stake and an opportunistic rights issue by the company.

C & W's largest activity by far is operating under franchise the internal or external telephone systems of small countries around the world — usually former British colonies. These are invariably monopolies but the company is venturing into much more competitive waters as it strives to become the world's first global telecommunications carrier.

The strategy is to develop telecommunications networks in three main areas of the world —the Pacific Basin, the UK and US. The great attraction of this plan is the large volumes of highly profitable intercontinental business traffic C & W can generate by linking those areas with high-speed digital communications via satellite or submarine cable.

To achieve this ambitious global strategy C & W will have to make substantial investments as well as proving itself in much more competitive and less regulated markets than it is accustomed to.

There are a number of people who still question whether C & W will be able to make the change. While the company likes to be seen as a dynamic concern with a fleet-footed management taking advantage of a unique position in the world's telecommunications, others see it as a more pedestrian company run by engineers. One director admits C & W used to be a highly centralised company of technical managers in the field backed by an army of clerks.

Sir Eric Sharp, who became chief executive shortly before C & W was privatised in 1981, says entrepreneurial thinking had become ossified while it was a nationalised industry. "There was a lack of commercial sensitivity, a lack of ideas welling up to exploit the potential opportunities or identify gaps in the company's strategic position."

Managers are now under considerably greater pressure to perform and meet agreed targets. If there is not a good reason then those who don't are likely to be banished to some uncongenial post or worse. One former employee describes C & W as an unhappy ship. However, Sir Eric says: "I am very confident that we have got all that cultural change—and in some cases shock—behind us."

"The trouble was we looked after our employees a bit too well," acknowledges a senior executive in Hong Kong. "For example, if someone moves posts we organise everything from the house to the servants and the children's schooling. It's not an environment which encourages people to take responsibility or risks."

Sir Eric adds that changes in senior management, decentralising and judging managers by their performance has resulted in an entrepreneurial spirit percolating down through the group.

C & W's global ambitions as a telecommunications carrier have largely been inspired by Sir Eric Sharp who joined the company as chairman in 1980 from Monsanto and became chief executive the following July.

Sir Eric is 69 and is described by employees and outsiders as autocratic and impatient. He is seen as such a forceful figure that C and W is sometimes criticised for being a one-man company which could have a succession problem. However, this year Brian Pemberton, more than 20 years his junior, who ran the vital Hong Kong operations, returned to London as chief operating officer and is tipped as the likely next chief executive.

Many observers expect someone else with greater skills at dealing with the City and foreign governments to be appointed as chairman. As one commented: "The company clearly needs a career diplomat at the helm."

As a result of Sir Eric's strategy, C & W is expanding its operations in the Pacific Basin, most notably in China, has started competing with British Telecom through its subsidiary Mercury and plans to expand in the fiercely competitive US market. In addition, it is to build the first private transatlantic telephone cable in a $600m joint-venture with Tel-Optic of the US.

C & W has a long way to go before it can achieve its strategic goal and it looks particularly lopsided at the moment because so much of its business is in Hong Kong. "Even at the end of the decade when it has built up its activities in the UK and US, the Far East will still provide 40 to 45 per cent of the profits," says Graham Meek at stockbrokers Wood Mackenzie.

"I identified the UK and the US as the two areas which would have to be coupled to our network if we were to attract customers like the multinationals, banks, financial sector, defence and governments with a high speed, reliable and secure network," says Sir Eric.

The three legs to the tripod which will make up the main part of C & W's global network are:

● Far East. C & W wants to build on its existing position in the region to exploit the rapid growth in telecommunications which will result from the development and economic expansion of the countries in the Pacific Basin. In addition to franchises which range from Hong Kong to the Cook Islands, it has a number of promising joint-ventures in China and is looking for ways of entering the Japanese market.

Its main source of profits comes from Hong Kong where its 80 per cent owned subsidiary has a franchise to provide the colony's external communications. Since privatisation it has also bought a 79 per cent stake in Hong Kong Telephone Company (Telco) which provides the internal services.

As the third largest financial centre in the world with the second highest telephone density in Asia after Japan, Hong Kong has substantial telecommunications traffic which has been growing at about 25 per cent a year—double that of most advanced countries.

In addition to being the company's largest source of revenues and profits Hong Kong has also been the springboard into China where it has several joint ventures and projects. Demands for communications between the two have grown rapidly as about 17 per cent of China's international trade is funnelled through Hong Kong.

Telco's Chinese engineers give C & W an enormous advantage over other telephone administrations competing for work in China, including BT.

Its most successful operation to date is its 49 per cent stake in the Shenda Telephone Company. This operates in Shenzen which borders Hong Kong and is the largest of the five Special Economic Zones in China. Less successful has been its other joint venture, the Huaying Oil Telecommunications Service company which provides special communications for the oil industry in South China. The problem is a result of the poor level of oil and gas discoveries in the region.

Potentially its most important activity in China is the Yangtze Delta project where C & W is completing a technical study of the telecommunications needs for an area with a population of over 100m people including Shanghai. This is likely to lead to another joint venture between C & W and the Chinese which could have enormous potential.

A further opportunity is in Japan where some of the Government's shareholding is to be placed and C & W is to seek a quotation.

● Britain. The UK not only has the largest financial centre and the most multinational headquarters in Europe, it also is the only European country likely to allow competition on the network in the near future.

C & W has brought forward its investment plans for Mercury, which competes with BT to provide telephone services in the UK.

Mercury was originally a joint venture with BP and Barclays Merchant Bank when it acted more like a traditional telecommunications monopoly and talked of breaking-even in 1990. Since it bought out its partners C & W has changed almost all the management, greatly broadened its activities with the Government's blessing, and brought forward its investment plans. It expects to be in profit by 1987.

Mercury is spending £300m in an advanced digital network which will start offering a dialled national and international telephone service to the country in the middle of next year.

● The US. Competition in the US is so fierce that many carriers are losing money and it is likely to be the most difficult for C & W. But it is also the most vital funnel for C & W's international network.

Cable and Wireless's plans in the US, the third leg of its global strategy, are the most vague although the company says this is because it is being very cautious. Current operations have sales of about $145m, according to estimates by stockbrokers James Capel. The largest is TDX, which provides a "least cost call routing" service to small and medium sized businesses by automatically switching telephone calls via the cheapest long distance carrier.

C & W is also building and leasing transmission capacity on a number of optical fibre cables in the east of the US including Washington to New York and in Texas between Dallas, Houston and Fort Worth. It plans to acquire 3,000 miles of optical fibre in the US. Although competition is particularly fierce through overcapacity and many carriers making a loss, Sir Eric denies it will just be a funnel for the international network: "The objective is not to have a loss-leader in the US. It will have to be a profitable operation on its own."

One of C & W's most ambitious plans is to lay two transatlantic fibre optic cables costing a total of $600m in a joint venture with a US group. They will be the world's first private submarine cable systems to compete with those laid by the national telephone administrations.

Clearly many of C & W's activities face political risks ranging from a sudden change of direction by the Chinese Government to the possibility that a Labour government in Britain might take some action against Mercury. The US is probably the one area where the political risk is most slight but it is where competition in telecommunications is becoming cutthroat.

The strategy to become a world carrier will eventually dilute C & W's exposure to actions of one country — notably China. It is a bold plan. The big question is whether Cable and Wireless's management style has changed sufficiently to pull it off.

## Management abstracts

**Principles of finance.** Kent, February 2-7. Fee: £750. Details from Sundridge Park Management Centre, Bromley, Kent BR1 3TP. Tel: 01-460 8585.

**Supervision—an introduction to managing people.** London, February 5-7. Fee: members £330, non-members £380. Details from the British Association for Commercial and Industrial Education, 16 Park Crescent, London W1N 4AP. Tel: 01-636 5351.

**Leadership development programme.** Berkhamsted, February 9-14. Fee: £1,490. Details from Ashridge Management College, Berkhamsted, Hertfordshire HP4 1NS. Tel: 044384 3491.

**The fundamentals of finance and accounting for non-financial managers.** Brussels, February 10-14. Fee: members BFr 70,000, non-members BFr 78,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21,917.

**International technology joint ventures.** London, February 11-12. Fee: £431.25. Details from Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111.

**Double tax relief for corporate activity and ownership.** Zurich, February 20-21. Fee: ESC members £380, non-members £400. Details from European Study Conferences, Kirby House, 21 High Street East, Uppingham, Rutland LE15 9PY. Tel: 0572 822 711.

**Quality systems—design and implementation.** Bradford, February 26. Fee: £120. Details from the Bradford Management Centre, Heaton Mount, Keighley Road, Bradford, West Yorkshire BD9 4JU. Tel: 0274 42299.

**Applying decision technology.** Uxbridge, February 27-28. Fee: £325. Details from Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0895 56461.

## Business courses

**Law of buying and selling.** London, February 6-7. Fee: £431.25. Details from Miss J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111. Telex: 896827 TACS G (ref 1202).

**Computers in insurance/The risks of computers.** London, February 25/26. Fee: (for each conference) £175 plus VAT. Details from Mavis Gold, International Business Communications, Bath House (3rd floor), 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080. Telex: 888870.

# TECHNOLOGY

EDITED BY ALAN CANE



## Shock tactics for materials

**David Fishlock reports on how nuclear experimental techniques may lead to novel electrical substances**

STRANGE THINGS happen when ordinary substances are subjected to extreme shock. Gases begin to behave like metals and silica almost disappears, turning into a "rigid void," as the experimenters say. Water acquires a good electrical conductivity.

Shock can also force metals into unaccustomed crystal structures; patterns it has not been possible to obtain by other methods, with intriguing new properties. It opens opportunities for making superconducting materials which lose their electrical resistance at higher temperatures than those used now, perhaps even as high as room temperature; and supermagnets more powerful than any at present.

**Unique chemical and physical changes occur which are frozen in place by rapid quenching**

Shock, in this context, means subjecting the material to an impact at up to 10 kilometres a second — the speed of a ballistic missile, about 20,000 miles per hour. "Everything happens very quickly," says Harry Radousky, a physicist with Lawrence Livermore National Laboratory in California, one of a handful of research centres with the facilities to shock-process materials. It is one example of a nuclear weapon experimental technique which may lead to novel electrical and electronic materials.

These laboratories are equipped with the kind of "gun" described in the accompanying box. It fires a flat projectile at the material to be shocked, which is mounted in a strong steel containment to prevent it simply being blown to smithereens by the impact. The shock wave which passes through the material creates extremely high temperatures and pressures, for very brief periods.

The big difference from experiments in squeezing materials at very high pressure, in a diamond anvil press, is the accompanying temperature changes. The gun is now reaching the same kind of pressures as the press.

The extremes of temperature and pressure last for less than one millionth of a second. The cooling rate —quench rate — is correspondingly rapid, up to 1bn deg C per second, they calculate. Unique chemical and physical changes occur, which are frozen in place by the rapid quenching.

Defects in crystal structure which impart eccentricities to the material, they find, are locked firmly in place by a cooling rate which can be 100-1,000 times faster than anything used commercially today. At slower rates they simply fade into an equilibrium structure with much less exciting properties.

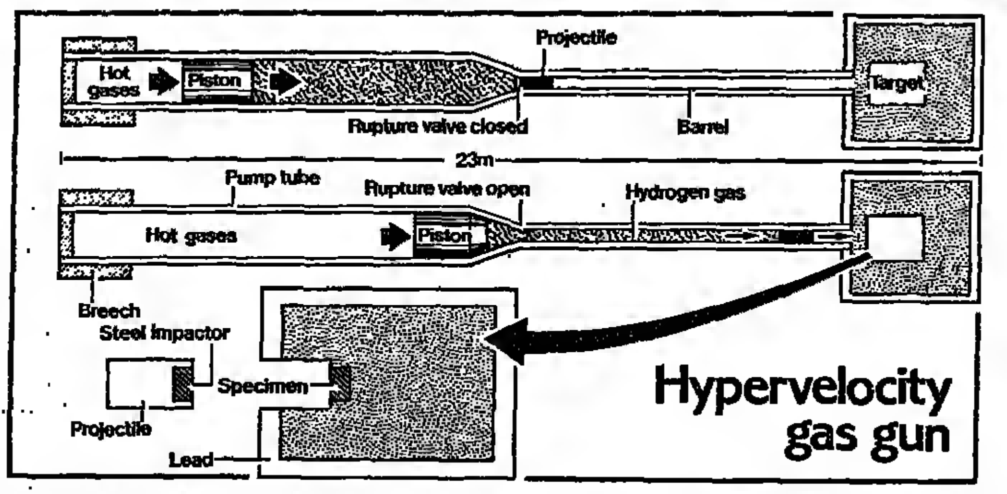
Two valuable properties which are particularly dependent on defects in the crystals are superconduction and magnetism. Russian and US scientists have reported making a new "high-temperature" superconductor with shock waves — even materials which are superconducting at room temperature. They used high explosives, however.

"A shock wave is a moving discontinuity in pressure, energy and density," says Dr Radousky. The Lawrence Livermore team, led by Dr William J. Nellis, finds that, with its gun, it can vary the main parameters such as pressure, temperature and duration of the shock to explore what may be a new class of metastable superconductors.

They are particularly excited by the idea of working with very thin films of superconductor — niobium coatings only 10 microns thick, on copper. This is a big step closer to a commercially realistic superconductor.

**One goal is a superconductor which will retain its properties in high magnetic fields**

One goal is a superconductor which will retain its properties in the presence of very high magnetic fields. Shock-synthesised niobium specimens have been transformed from structures having large crystals of no particular alignment into highly deformed structures of long, thin crystals orientated parallel to the shock front. This is precisely what the researchers are seeking to provide enhanced magnetic properties.




THE LAWRENCE Livermore "gun" was built by General Motors in 1971, for studies of such materials as nuclear explosives and nuclear fuel pellets for laser fusion experiments, which are exposed to extremely high temperatures and pressures. A bigger version is used to study problems of atmospheric re-entry for space vehicles.

It consists of a breech into which is packed 1.35 kg of gunpowder, a pump tube fitted with hydrogen, and a barrel from which the air is pumped out. Hot gases from the gunpowder drive the piston into the pump tube, compressing the gas to a point where the rupture valve opens and the 20-gram "shell" is fired at the target at up to 8 km per second.

The target is the specimen —a few grams of the substance to be shocked. Many materials of special interest here are friable and liable to be blown to dust. So the specimen is sunk into a steel fixture, which in turn is encased in lead. After the hypervelocity impact, the lead envelope is found to have ballooned away from the steel. The shock-welded steel is machined away, to release the specimen.

The gun produces a double shock wave. The first one sweeps across the target, and is reflected from its back surface, so that a pressure rarefaction wave travels back through the material. The result is a higher compression and temperature in the material.

The specimen itself emerges flattened, splayed to twice its original diameter "with all the grains squished in one direction," one researcher says.

Lawrence Livermore's hypervelocity gun is operated as a research facility for the whole laboratory, and made available to researchers at Stanford University and the University of California.

## Radiation detection automated

PEOPLE WHO may be at risk from exposure to gamma or X-ray radiation could be helped by a detection system sold by Wallac, of Newbury.

In the company's range of Alnor hardware, details of radiation doses recorded on pocket-sized dosimeters are fed into a computer system. This can be done as a person enters and leaves a work area, be it nuclear plant or hospital laboratory.

The data is correlated with personal details, which records the degree to which an individual has been exposed to previous high radiation levels.

The system will sound an alarm if the amount of radiation to which a specific person is subjected has risen above an accepted pre-set level.

## 'Matched mailing' system launched

COMPANIES THAT have to mail large number of letters or forms containing a limited amount of variability for each recipient will be interested in a service called Matched Mailer that is about to be introduced into the UK by Moore Paragon.

This comprehensive system looks after the whole mailing process. It takes rolls of blank paper and produces sealed envelopes ready for mailing in a single continuous operation that includes printing, "personalisation," folding, sealing, envelope forming, addressing, stamping and postal code sorting.

Typically a 100,000, five-part mailing will cost between 10p and 15p per unit.

In North America, banks, insurance companies and government bodies are already major users and Moore Paragon says they often achieve savings of 25 per cent compared with traditional methods.

Conventional methods involve ordering and supervising the printing of individual components, often from separate suppliers, followed by delivery, storage, adding variable data, detaching, matching, folding, inserting, addressing and mailing.

With Matched Mail, the exact number of items for a complete mailing come off the machine into security mail boxes ready for Post Office collection.

The system combines computer control with modern ink jet printing, in which tiny drops of electrostatically charged ink are accurately attracted by deflection plates on to the paper, forming characters.

Matched Mailer's computer is controlled by magnetic tape containing the mailing list and all the other variable information. For example, an insurance company mailing might need to show each recipient's age, occupation and family size, with details of a specific insurance plan as it would apply individually.

The non-variable part of the mailing is printed first on special webs. A range of different papers and paper colours can be used with four ink colours. A wide range of sizes is possible.

The pre-printed webs then pass through the ink jet system which adds the variable data from the control tape.

There is no danger that the components of the mailing (up to six) are separated — the envelope is formed around them immediately after they are cut and folded. Completely closed rather than window envelopes are constructed and reply envelopes are formed in the same way.

More on 01-928 9022.

G.C.



## Battery designs examined

SANDIA National Laboratories, which is operated for the US Energy Department by AT & T Technologies, is looking at several new re-chargeable battery designs that could prove invaluable in electric vehicles, in levelling demand in the electricity supply industry and in storing the output of solar cells for providing regulated supplies of power.

Two particular pairs of chemicals look promising: sodium/sulphur and zinc bromine. These are highly active combinations that produce good power to weight ratios, but are difficult to engineer into battery enclosures.

However, Dr Nicholas Magnani of Sandia believes the two projects will lead to the production of a 50kw advanced battery modules that could yield eventual commercialisation.

For example, a contract with Ford Aerospace and Communications Corporation has just been concluded under which a 75kw stationary sodium/sulphur battery system operated successfully for 675 charge/discharge cycles over 32 months.

Recently, Chloride Silent Power in the UK was awarded a long term multi-million dollar Energy Department contract to continue work which has been in progress at Runcorn for more than 10 years. The objective is to produce a 50kwh battery for stationary applications. Such a unit might run a small house in the summer for two days.

The British module will employ a "unique and advanced" cell design and will be the basis of a 500kwh stationary battery to be built under a complementary contract between Chloride and the Electric Power Research Institute in California.

This large battery is to be tested at the Battery Energy Research Institute in Hillsborough, New Jersey, in 1990. The results are expected to guide development of units up to a 100Mwh. At this level, it becomes possible for electricity authorities to use their generating capacity throughout the night when demand is low, to store energy and then release it from batteries during the day at times of maximum demand. This obviates the need for "peak" generating capacity which might only be used for a few hours in 24.

The department also has contracts with Exxon Research and Engineering under which a zinc/bromine unit has been successfully fitted inside a Ford test vehicle. A new contract placed by EPRI with Energy Research Corporation, of Danbury, Connecticut, calls for production of a 50kwh unit that will be a building block for a new 500kwh battery scheduled to be ready for testing by 1989.

Sandia is also looking at hydrogen/nickel which can be highly reliable, maintenance free and long lived. It would be particularly useful for storing the output from unattended solar cells systems, but is very expensive.

GEOFFREY CHARLISH

## Cossor to aid Prosat project

COSSOR ELECTRONICS of Harlow is to aid a pan-European programme to research techniques for satellite communications. The company has won a £950,000 order from the 11-nation European Space Agency to build a satellite receiver for use in the agency's Prosat project.

In Prosat, engineers will experiment with methods to send signals to satellites so the space craft can provide links with mobile units such as cars, ships and aeroplanes.

The Cossor receiver will use digital signal-processing techniques to squeeze a lot of messages into a small radio band and to maintain signal strength.

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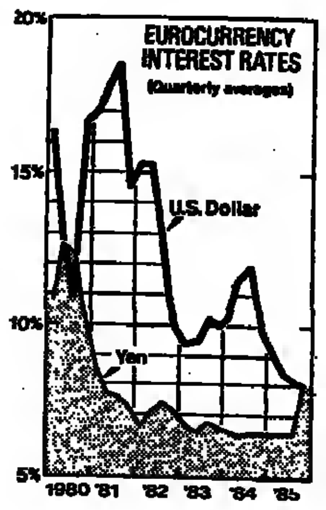
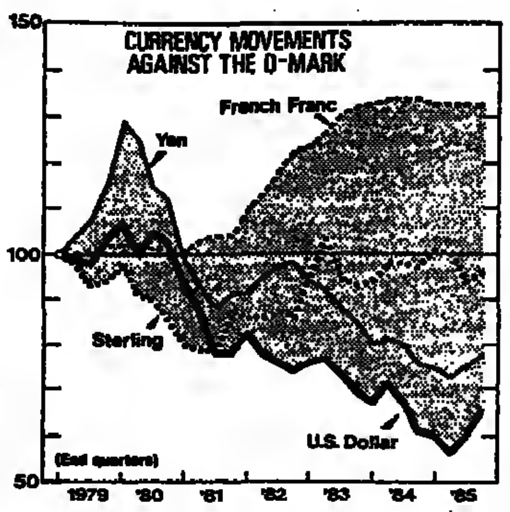
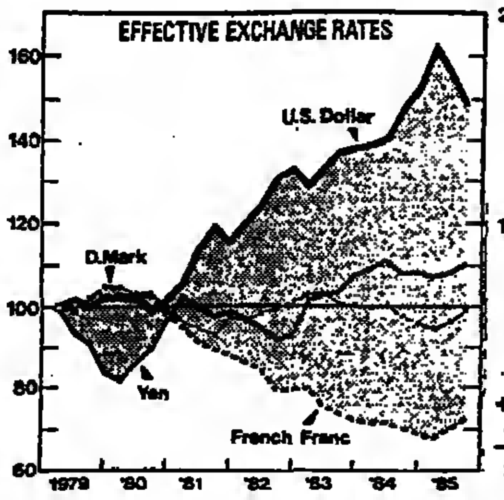
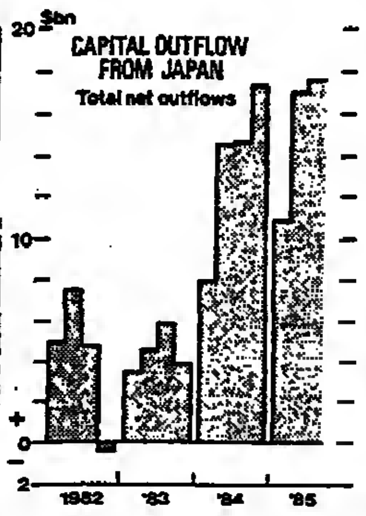
# STATISTICAL TRENDS : CURRENCIES

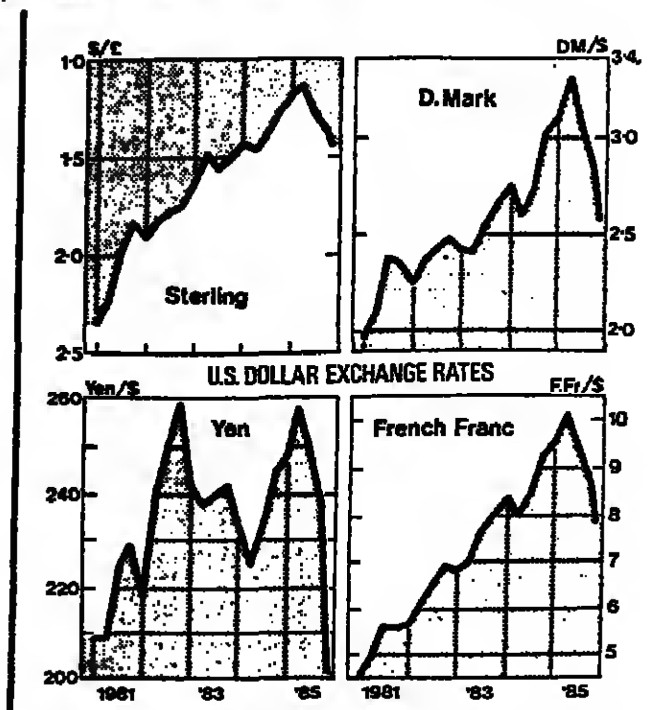


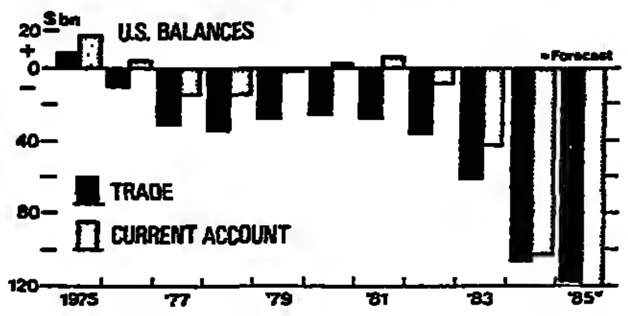



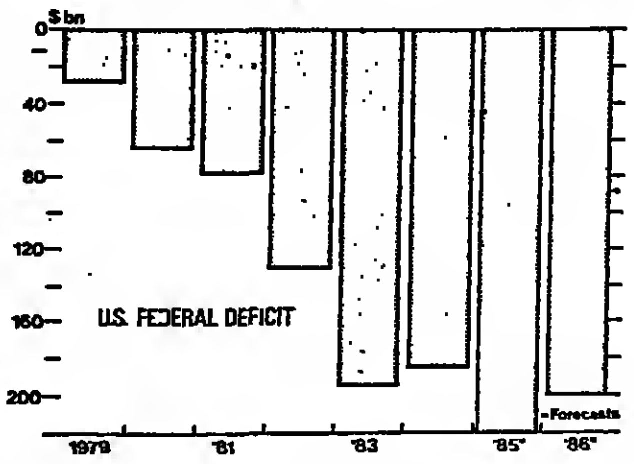



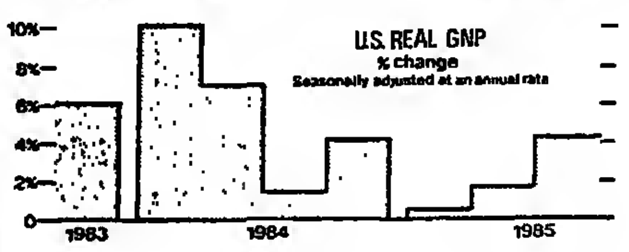








# *US dollar makes orderly but swift retreat*

AFTER four years of stoady growth ogainst the European currencies the US dollor faltored early in 1985. Since then it has mode an orderly though swift retreat. In early March it peakod against tho D-mark and against sterling at DM 3.4 and $1.066 (weokly avorages). Since thon, despite occasional rallioo, it has fallen to around DM 2.50 and $1.50.

Against the yen, tho rise of the US dollar was not so dramatic betwoen 1981 and 1985. Although tho dollor rose from around Y202 at tho beginning nf 1981 to Y260 in March 1985, there was a long poriod of yen recovery between October 1982 ond Juno 1984 from Y270 to Y230. Since March 1985 the yen bas strengthonod considorably to Y202.

The yen was tho currency that appreciated mnst after the meeting on Septembor 22 of the finance ministers and central bankers from the fivo leading industrial countries (tho Group of Five).

The sharp movement ogoinst the dollar reflected strong Intorvention led by tho Bank of Japan and tho US. Central banks of tbe three leading European countries also intervoned in tho market.

Since tho meeting other currencies have extended the goins mado in the previous six months but without any dromotic chongo in trend.

The docline of the US dollar in 1985 has occurred against the hockground nf a goneral slowdown in economic growth in the US and a fall in US interest rates. The 3-month Eurodollar rate (monthly overages) hao dropped from 12 per cent in July 1984 to 8 per cont in November 1985. Meanwhile, the 3-month Euroyen rate which remained steady from July 1984 until September 1985 has risen sharply to 8 per cent thus eliminating the interest rato difforential.

On a trade weighted basis the US dollar now stands about 45 per cent above its 1980 lovol and at around tho level of mid-1984. Considering the chango since 1982 when the current account was in balance the rise is a more modest 15 per cent.

Factors that put a questionmark over the dollar are tho Fedoral deficit at an estimated $220bn in 1985, the still detoriorating current account at an estimated $120bn this year, and —forecasts of further slowdown in economic growth to perhaps 2.5 per cent in 1986.

Howover, the recent nnexpectedly high revision to the third-quarter figure for GNP growth taking it to 4.3 per cent at an annuol rate could point to an upward revision to the 1986 estimate.

Also the switch in overseas bank lending by US banks which moved from $45bn in 1982 to a net repayment of $24bn in 1983 continued through 1984 and tho first half of 1985. This switch in lending, leading to a shortage of dollars in the foreign exchange markets, helped to support the rise of the US dollor in 1983 and 1984.

Much of the supporting capital flows into the US coma from Japan which in the first eight months of 1985 hod nat capital outflows of $65bn at an annual rate.

The US federal deficit is the major attraction for these funds, as the combinad general government doficits of West Germany, France and the UK total a relatively modest $45bn.

Although Japan is now a major exporter of capital, the yen has a very small role in the international capital markets. The yen's shore nf the mnre than $1,000bn Euromarket is only 2 per cent. One of the major reasons is the lack nf a need for borrowers to roise yen as nearly all Jopan's imports and a major part of its exports are invoiced in non-yen currencies.

Within the EMS the previons two years have been a period of relotive stability with the DM/FFr rate remaining remarkably steody since 1983. The rising US dollar trend agolnst all currencies may have helped by making difforences in trode performance and fiscal policies.

Thus the EMS went two years without a realignment until the 8 per cant davaluation of the lira in July 1985. If the dollar depreciates further, perhaps internal strains will become more evidont.

Not only economic factors will influence exchange rate movements in the next two years. Political factors will also be important with elections due in France, West Germaoy, Jopan, and the UK.

**BIS — REPORTING BANK CHANGES**

| $bn | Total External Assets | Net International Bank Lending |
|---|---|---|
| 1979 | 206 | 125 |
| 7980 | 241 | 160 |
| 1981 | 265 | 165 |
| 1982 | 175 | 95 |
| 1983 | 108 | 85 |
| 1984 | 120 | 95 |
| 1985* | 120 | 60 |

* Half year annualised. Source: BIS

**CURRENT ACCOUNTS**

| $bn | US | Japan | EEC |
|---|---|---|---|
| 1979 | −1 | −2 | −8 |
| 1980 | 3 | −11 | −37 |
| 1981 | 5 | 5 | −13 |
| 1982 | −11 | 7 | −8 |
| 1983 | −41 | 21 | 3 |
| 1984 | −102 | 36 | 4 |
| 1985* | −120 | 40 | 11 |
| 1986* | −145 | 48 | 23 |

* Forecast. Source: OECD

**GDP VOLUME**

| | US | EEC | Japan |
|---|---|---|---|
| 1981 | 3.4 | −0.2 | 4.2 |
| 1982 | −3.0 | 0.5 | 3.0 |
| 1983 | 2.2 | 1.0 | 3.0 |
| 1984 | 2.8 | 2.1 | 5.9 |
| 1985 | 2.7 | 2.3 | 5.1 |
| 1986 | 2.4 | 2.3 | 4.7 |

Source: OECD/EEC

**INFLATION**

**CONSUMER PRICES % change**

| | US | Japan | Germany | UK |
|---|---|---|---|---|
| 1978 | 7.5 | 3.8 | 2.8 | 2.3 |
| 1979 | 11.3 | 3.6 | 4.1 | 13.4 |
| 1980 | 13.5 | 8.0 | 5.5 | 18.0 |
| 1981 | 10.4 | 4.2 | 5.9 | 11.9 |
| 1982 | 5.3 | 2.2 | 5.3 | 8.8 |
| 1983 | 3.2 | 1.9 | 3.0 | 4.5 |
| 1984 | 4.3 | 2.2 | 2.4 | 5.0 |
| 1985* | 3.7 | 2.4 | 2.5 | 6.0 |
| 1986* | 4.2 | 2.9 | 1.9 | 4.7 |

* Forecast
Source: OECD/Phillips & Drew

**US CAPITAL ACCOUNT**

| | Gross Outflows Total | Long Term | Short Term | Banks | Gross Inflows Total | Long Term | Short Term | Banks |
|---|---|---|---|---|---|---|---|---|
| 1980 | −78 | −28 | −3 | −47 | 44 | 26 | 7 | 11 |
| 1981 | −106 | −20 | −1 | −84 | 77 | 33 | 2 | 42 |
| 1982 | −114 | −9 | 7 | −111 | 93 | 23 | 4 | 66 |
| 1983 | −48 | −18 | −5 | −25 | 76 | 23 | 4 | 49 |
| 1984 | −18 | −15 | 6 | −7 | 88 | 53 | 7 | 28 |

Source: OECD

**PORTFOLIO INVESTMENT TO AND FROM THE USA**

| $bn | 1982 Year | 1983 Year | 1984 Year | 1985 Q1 | 1985 Q3 |
|---|---|---|---|---|---|
| **Inflow:** | | | | | |
| Equities | 3.9 | 6.4 | −0.8 | −1.1 | 0.4 |
| Treasury securities* | 21.5 | 8.7 | 22.4 | 2.6 | 5.3 |
| Other Bonds | 1.5 | 2.2 | 13.8 | 10.8 | 8.7 |
| Total | 26.9 | 17.3 | 35.4 | 12.1 | 12.4 |
| **Outflow:** | | | | | |
| Bonds | −0.0 | −3.1 | −3.9 | −0.8 | −1.9 |
| Equities | −1.6 | −3.9 | −1.1 | −1.9 | −0.1 |
| Total | −8.1 | −7.0 | −5.0 | −2.5 | −1.9 |
| **Balance:** | | | | | |
| Equities | 2.4 | +2.6 | −1.9 | −3.0 | +0.3 |
| Bonds | 16.4 | +7.8 | +32.3 | +12.2 | +10.2 |
| Total | 18.0 | +10.3 | +30.4 | +9.8 | +10.5 |
| Foreign official purchases of US Govt. securities* | | +6.5 | +4.9 | −7.5 | +8.7 |

**PORTFOLIO INVESTMENT TO AND FROM JAPAN**

| $bn | | 1982 Year | 1983 Year | 1984 Year | 1985 Q1 | 1985 Q2 | 1985 Q3* |
|---|---|---|---|---|---|---|---|
| Inflow: | Equities | 1.2 | 4.1 | −7.2 | 0.2 | −1.7 | −0.6 |
| | Bonds | 4.8 | 2.1 | 3.5 | −0.8 | 0.8 | 0.2 |
| | Total | 6.5 | 6.2 | −3.7 | 0.0 | −0.9 | −0.4 |
| Outflow: | Equities | −0.1 | −0.8 | −0.1 | −0.1 | −0.5 | 0.0 |
| | Bonds | −2.1 | −12.5 | −26.8 | −7.2 | −14.0 | −19.4 |
| | Total | −6.2 | −13.1 | −26.9 | −7.3 | −14.3 | −19.4 |
| Balance: | Equities | 1.5 | +3.5 | −7.3 | 0.7 | −2.2 | −0.2 |
| | Bonds | −1.2 | −10.4 | −23.3 | −2.0 | −13.2 | −19.2 |
| | Total | 0.3 | −6.9 | −30.6 | −7.3 | −15.4 | −19.8 |

*July/August at a quarterly rate.

*Commentary by our Economics Staff; data analysis by Financial Times Statistical Unit; charts and graphs by FT Graphics Department.*

**REAL INTEREST RATES***

| | US | Japan | Germany | UK |
|---|---|---|---|---|
| 1982 Dec | 4.4 | 5.2 | 2.0 | 4.5 |
| 1983 Dec | 5.5 | 4.6 | 3.9 | 3.5 |
| 1984 Dec | 4.4 | 3.7 | 4.1 | 4.5 |
| 1985 latest | 4.7 | 4.2 | 2.7 | 5.3 |

* 3 month.
Source: Simon & Coates

**NEW BOND ISSUES**

| | 1983 | 1984 | 1985* |
|---|---|---|---|
| ECU | 2.0 | 3.0 | 6.4 |
| US$ | 43 | 69 | 108 |
| D Mark | 5.5 | 5.8 | 9.0 |
| Swiss Franc | 14.3 | 12.8 | 13.0 |
| Yen | 4.0 | 5.9 | 9.7 |

* January/June at an annual rate.
Source: Morgan Guaranty

# Economic recovery in danger of stalling says forecast group

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

A CALL for an immediate cut in interest rates to prevent the economic recovery from stalling was made yesterday by Liverpool University's economic forecasting group.

The group, led by Mr Patrick Minford and traditionally a strong supporter of the Government's anti-inflation strategy, says the sharp tightening of monetary policy since the beginning of the year may now be damaging growth.

Mr Minford says the slowdown in the growth rate of the narrow money-supply measure, Mo, over recent months indicates that Britain has the tightest monetary policy it has ever had.

"These figures are flashing red on the dashboard of monetary control." Unless immediate action is taken to reduce interest rates a stalling in the growth rate is increasingly likely, he says in the group's Quarterly Economic Bulletin. Mr Nigel Lawson, the Chancellor of the Exchequer, is accused of retreating into "muddle and discretion on monetary policy."

The bulletin, however, gives an optimistic assessment of the prospects for the economy if interest rates are cut. It predicts growth next year of 3 per cent, with inflation averaging an annual 3.3 per cent. It also predicts a slight drop in the unemployment rate to 3.1m next year and 3m in 1987.

It argues that the Government is right to use the receipts of its privatisation programme to finance tax cuts and welcomes what it sees as a new flexibility in fiscal policy. The benefits of tax cuts and privatisation for the supply side of the economy will sweeten the pill of long-term public spending reform, it says.

Mr Minford says Mr Lawson should use the scope for tax cuts to raise thresholds rather than to reduce the 30 per cent basic rate of income tax. Cuts in the basic rate are only half as effective as increases in thresholds in reducing unemployment, it argues.

The political gain to the Government of helping middle-income voters through e lower basic rate should, therefore, be overridden by the economic logic of seeking to pull low-paid workers out of the unemployment trap.

● In a separate review of the outlook published today, the Henley Centre for Forecasting suggests that 1986 will provide the ideal economic background for an early general election.

The centre says that if the Treasury's forecasts of rapid growth, tax cuts and inflation falling to the levels of the last general election in 1983 prove correct, the autumn of 1986 might be the best time for the Government to seek a new mandate. The latest possible date for an election is the spring of 1988.

The main engine for economic growth next year is expected to be e surge in consumer spending as inflatioo drops sharply and the pace of earnings growth remains strong.

Such rises in spending have been the traditional way in which governments have approached elections, and the official projection of a 4 per cent increase in 1986 clears the way for an election in the autumn of next year or the spring of 1987, it says.

A decision to call an election later than that would risk its coinciding with what the centre forecasts will be a distinct faltering in the growth rate as the consumer boom fades.

Peter Riddell writes: The Government is wilfully sacrificing the prospect of real long-term recovery for the short-term and spurious impression of success ahead of the next election, Mr Roy Hattersley, Labour's economic spokesman, said yesterday.

He told a meeting of the Labour economic strategies group in Birmingham that economic policies adopted this autumn represented "degenerate irresponsibility and a squalid concern for nothing except political survival."

He was speaking ahead of the publication later today of a report by the cross-party Treasury and Civil Service Select Committee of the House of Commons which is expected to be critical of aspects of present policy.

He said the Government now proposed a version of "Reaganomics – a relatively tight monetary policy based on high real interest rates and an overvalued currency, operated in conjunction with a more expansionary fiscal policy based on a growing public sector financial deficit caused by tax cuts and financed by privatisation."

Sectarian image of Protestant volunteer force worries Dublin, Hugh Carnegy reports

# Pressure up on Ulster's part-time soldiers

ONE OF the top items on the agenda at the first meeting expected in Belfast this week of the intergovernmental conference set up under the Anglo-Irish agreement is the role of the Ulster Defence Regiment.

The UDR, 6,500 strong and 97 per cent Protestant, has long been regarded by many in the minority Nationalist community in Northern Ireland as a sectarian force which includes extreme Loyalists and whose members regularly harass Roman Catholics while on duty.

This view is strongly denied by the UDR but it none the less finds itself in the forefront of controversy following the signing of the agreement last month.

The joint communiqué issued at the signing said the first meeting of the conference would look at ways of ensuring that the security forces "discharge their duties even-handedly and with every respect for the Unionist and Nationalist identities and traditions."

Both Dr Garret Fitzgerald, the Irish Prime Minister, and Mr Peter Barry, his Foreign Minister, who will lead the Irish side at the conference, subsequently made it very clear that to achieve this they wanted changes in the UDR.

The Irish Government takes the view that the UDR has been a key factor in the alienation of Nationalists from authority in Northern Ireland and must be changed if the agreement's commitment to ending that alienation is to succeed.

The British Government, sympathetic to the Unionist view that the UDR is an indispensable force in the fight against the IRA, has said the structure and control of the regiment will not change.

However some shifts in operational methods are already under way. Last week the UDR announced changes in training procedures clearly aimed at tackling Nationalist complaints by improving the conduct of soldiers at vehicle and other checkpoints, where most criticisms of harassment originate.

The UDR was established in 1970 as an internal security force following the disbandment of the notorious Ulster Special Constabulary, or 'B' Specials. It remains a mainly part time force – only 2,700 of its members are full time, with 107 officers attached from regular British Army regiments.

The UDR costs only £40m a year to run, far less than e regular regiment or the RUC equivalent would. One of its main operational strengths is the detailed local knowledge of terrain and people of its soldiers.

The regiment has always been a prime IRA target. To date 151 serving UDR members have been killed, 123 of them off duty, and a further 41 ex-UDR soldiers have been assassinated.

Eight of the first 23 killed were Catholics and since then the number of Catholics in the regiment has dwindled from a maximum of 18 per cent to 3 per cent.

"We would love to have more Roman Catholics in the regiment but the IRA has made a deliberate policy of killing our Catholics," said UDR commanding officer Brigadier Roger Preston. He does not regard recruiting Catholics as an impossible task.

Nor does he accept the view of the UDR's best known former member and advocate, Mr Ken McGuinness, Official Unionist MP for Fermanagh and South Tyrone, who says the UDR should be accepted as e "moderate Protestant army."

Mr McGuinness, who served as a part time UDR man for 11 years, argues it is inevitable that in combating the IRA, the UDR not only does not attract Catholics, but is resented by many Catholics.

"I wouldn't be a Catholic in the UDR," he says, referring to the number of Catholic UDR soldiers who have been killed by the IRA.

Mr Seamus Mallon, deputy leader of the Social Democratic and Labour Party, and a strong critic of the UDR, would like to see Mr Barry pressing for the regiment to be disbanded.

Short of that, it must be taken completely out of contact with the public. "The reality is they will never be acceptable to the Catholic community," he says.

Mr Mallon's greatest criticism is that the UDR harbours Loyalist paramilitaries. Eleven members of the UDR have been convicted of murders, most of them sectarian, and many Nationalists believe not all cases have been brought to justice.

Brigadier Preston says the number of cases has to be seen in the context of more than 30,000 men who have passed through the regiment. He says recruitment vetting is rigorous, with each applicant subject to vetting by both the UDR and a joint police and army body.

The brigadier does not seem to be worried that the UDR's days have been numbered by the Anglo-Irish agreement. The regiment would be only too happy to pack up and go home if violence was to cease.

In the meantime, Brigadier Preston knows that however much even some British politicians would like to disband the regiment, no one has yet suggested a viable alternative.

# Paisley reaffirms hard line on deal

Financial Times Reporter

AS BRITISH and Irish Ministers prepared for the first meeting in Belfast of their new intergovernmental conference on Northern Ireland, the Rev Ian Paisley, leader of the Democratic Unionist Party, said yesterday that there could be no compromise in Unionist opposition to the Anglo-Irish agreement.

Speaking on television he said: "We cannot back off the Anglo-Irish agreement because it destroys the Union. There can be no compromise. It's not for renegotiation; it's for scrapping."

Mr Paisley said that there was no prospect of power-sharing with the Social Democratic and Labour Party because the SDLP supported the agreement.

He warned that he and other Unionist leaders might eventually have to advise any members of the Royal Ulster Constabulary (RUC) and Ulster Defence Regiment who were unhappy at Dublin's involvement in security matters through the intergovernmental conference to resign, although at present the advice was to remain in their places.

In Dublin, Dr Garret FitzGerald, the Irish Prime Minister, told a meeting of his Fine Gael Party that both his Government and the British Government were determined to put the agreement "into full force."

Mr Peter Barry, Foreign Minister and leader of the Irish side at the intergovernmental conference, said the Republic wished to persuade the Unionists, not threaten or coerce them. "We respect their wish to stay apart from us," he said.

RUC fears of an IRA campaign against the Anglo-Irish agreement were raised at the weekend. Two RUC men were killed and three seriously injured when shots were fired and a bomb exploded at Ballygawley police station.

Their deaths brought to 23 the number of RUC officers killed this year, the highest total since 1976.

Security forces also discovered 20 pounds of explosives and bomb-making equipment in West Belfast, which police said appeared to be aimed at an RUC station. The two incidents followed an IRA bomb attack on an RUC station at Toome Bridge last week.

# Employers using more temporary workers

BY OUR ECONOMICS CORRESPONDENT

A SIGNIFICANT rise in the number of temporary workers in Britain may be the beginnings of a permanent shift by employers towards more flexible organisational and manning strategies, according to a study by the Manpower Services Commission (MSC).

The study, which was published in the latest Labour Market Quarterly Report, says that 1.5m people were in temporary, seasonal or casual work, or working on fixed term contracts last year. That represented 8.5 per cent of total employment and compared with 1.3m temporary workers a year earlier.

The rise supports evidence from other analyses of the labour market which suggest that employers are relying increasingly on a relatively small "core" labour force, supplemented when necessary by occasional workers to whom they have no permanent obligation.

The MSC says that over 60 per cent of temporary work was carried out in distribution, hotels, catering and other service industries, while over half of all temporary jobs were part-time. Around 75 per cent of the part-time jobs are taken by women.

The report cites a number of traditional reasons for employers using temporary labour, such as coping with seasonal peaks in work or covering for temporary absences of shortages.

There is also evidence, however, that the shake-out in the labour market after the recession of 1980 has brought a more permanent shift in employers' behaviour, it says.

Companies now keep their permanent establishments down to the "off-peak" level and use temporaries when needed. At the same time high unemployment has boosted the number of people willing to take temporary jobs.

# New chief for Takeover Panel

**Barry Riley meets the head of a City body that is eager to remain independent and self-regulating**

THE TAKEOVER Panel acquires a new director-general today with the arrival of Mr John Walker-Haworth on a two-year secondment from merchant bankers S. G. Warburg. Within the next three months or so the panel will also need to decide on a new scheme to finance itself, and will have to thrash out a new system for regulating integrated securities firms. Under the new stock market structure, these firms may be making markets in the shares of companies at the same time as advising those companies in takeover situations.

"It's going to be a fascinating two years in the context of major changes in the securities industry," says Mr Walker-Haworth. The panel will do its best to continue as an independent self-regulatory body, operating entirely outside the statutory framework as it has done throughout its 16-year history. In this context the first hurdle will be next week's Financial Services Bill, in which the panel hopes it will be notable for its absence.

In the white paper (policy document) last January the panel was offered statutory backing if it wanted it. The offer has subsequently been politely but very firmly refused. Mr Walker-Haworth explains that it is essential that the panel should be seen as the final arbiter, and not as a mere first step in a legal chain as would be the case if its authority were seen to derive from statute.

"With the increase in the amount of money involved in bids there would be a tendency to fight cases to the highest level," says Mr Walker-Haworth. "Bid participants must not be tempted to look through the panel to, ultimately, the House of Lords." He has "a hope and an expectation" that the panel will be left out of the bill.

Mr Walker-Haworth, a barrister by training, spent 10 years from 1967 with stockbrokers Cazenove. Of the past eight years, he has spent six in corporate finance in Hong Kong, most recently for East Asia Warburg.

He takes up the reins at a time of an astonishing spate of takeover bids, which last week alone totalled more than £5bn. The problem of the heavy workload on the panel'e executives will be one of his first subjects for attention, with the team of nine said to be regularly working a 12–15 hour day.

Already the panel has gratefully expanded into office space vacated by its now defunct parent body, the Council for the Securities Industry (CSI) and it hopes to recruit one or two more executives. "A lot of the processes are the same for a £1m takeover as for a £1bn takeover, but the larger figures give a lot more focus, and there tend to be a lot more professional players on either side," says Mr Walker-Haworth.

The CSI has been phased out in favour of the statute-backed Securities and Investments Board (SIB), a body with which the Takeover Panel is not expecting to have any formal relationship (and some within the panel are said to be surprised at bow few feelers the SIB has put out even on an informal basis).

The panel is happy to stand alone, but it will need to seek new sources of finance because it has been paid for up to now by the CSI out of the proceeds of a 60p stamp on stock exchange deals of more than £5,000. This money runs out next March 31.

Various options continue to be considered, including a levy on takeover deals. "We wouldn't necessarily confine ourselves to one source of income," says Mr Walker-Haworth, "but we feel the beneficiaries of the panel are shareholders so there is some logic to a levy on the market place."

March is also the deadline for a decision on the treatment of conflicts of interest between the new-style securities groups, when merchant banks, stockbroking firms and stockjobbing (market making) firms will be allowed to merge. This will follow stock exchange rule changes on March 1 (though for tax reasons most mergers are likely to be developed until after April 5).

A panel discussion paper circulated in the summer caused controversy by suggesting that market-making activities might need to be restricted or even halted if firms became involved in advising on bids. According to Mr Walker-Haworth: "Those issues of conflict are going to have to be addressed. There haven't been any decisions taken yet on the discussion paper. But there's no point in designing something that a market maker isn't able to live with in his day-to-day business."



## Company Notices

**CITY OF LIMA**
(The Honourable Provincial Council of Lima)
5% FIRST MORTGAGE BONDS 1911

NOTICE IS HEREBY GIVEN that for the Sinking Fund of the above Loan for January 1986, Bonds for an original nominal amount of £6,500 have been drawn for redemption.

The following are the numbers of the bonds drawn for redemption on 1st January 1986 after which date all interest thereon will cease. Payment will be made at the new par value of £171 per £100 Bond in accordance with the Republic of Peru Offer dated 13th January 1955.

| | | | | | |
|---|---|---|---|---|---|
| 88 | 178 | 38a | 1001 | 1094 | 1135 |
| 1281 | 1286 | 1370 | 1371 | 1487 | 1549 |
| 1647 | 1670 | 1736 | 1788 | 2060 | 2137 |
| 2243 | 2245 | 2298 | 2297 | 2315 | 2382 |
| 2430 | 2481 | 4613 | 3625 | 4027 | 2680 |
| 2719 | 2798 | 2903 | 3009 | 3181 | 3323 |
| 3403 | 3494 | 3583 | 3718 | 3819 | 3094 |
| 3900 | 4014 | 4086 | 411e | 4142 | 4311 |
| 4338 | 4425 | 4536 | 4544 | 4550 | 4554 |
| 4640 | 4721 | 4726 | 4771 | 4901 | 4943 |
| 4995 | 5t5e | 537e | 5413 | 577e | |

The above bonds should be presented for repayment to Lloyds Bank Plc, Branches Stock Office, 111 Old Broad Street, London EC2N 1AU, listed on the appropriate forms and must bear all coupons subsequent to 1st January 1986 otherwise the amount of the missing coupons will be deducted from the redemption proceeds.

**BRAZIL STERLING LOANS: DECREE LAW NO. 6019**
**STATE OF BAHIA**
**5% FUNDING LOAN 1915**

NOTICE IS HEREBY GIVEN that under the Sinking Fund arrangements of the above loan all bonds in issue are called for repayment at par on 1st January 1986 after which date all interest thereon will cease.

Bonds should be presented for repayment to Lloyds Bank Plc, Branches Stock Office, 111 Old Broad Street, London EC2N 1AU, and must bear all coupons subsequent to 1st January 1986.

**BRAZILIAN STERLING LOANS: DECREE LAW NO: 6019**
**STATE OF PERNAMBUCO 5% LOAN 1905**

NOTICE IS HERBY GIVEN that for the Sinking Fund of the above Loan for January 1986 bonds for a nominal amount of £4,320 have been drawn for redemption.

The following are the numbers of the bonds drawn for redemption at par on 1st January 1986, after which date all interest thereon will cease.

216 BONDS OF £20 NOMINAL VALUE EACH = £4,320

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 352 | 715 | 820 | 1397 | 1815 | 2458 | 3309 | 3310 | 3678 | 4300 |
| 4604 | 4656 | 5018 | 5049 | 5863 | 6001 | 6141 | 6257 | 6758 | 6761 |
| 7144 | 7164 | 7597 | 7687 | 7751 | 7836 | 8068 | 8178 | 8397 | 8401 |
| 8476 | 8627 | 8033 | 8685 | 8931 | 9599 | 9964 | 10045 | 10208 | 10448 |
| 10514 | 10741 | 10910 | 11320 | 11327 | 11648 | 11700 | 11908 | 12013 | 12377 |
| 12823 | 12824 | 13445 | 13869 | 14361 | 14505 | 14615 | 14721 | 14834 | 14943 |
| 15888 | 16002 | 16272 | 16286 | 16502 | 17211 | 17223 | 17505 | 11002 | 18068 |
| 18293 | 18454 | 18618 | 18673 | 18800 | 19111 | 19642 | 19645 | 20348 | 20428 |
| 20588 | 20748 | 21246 | 21467 | 21752 | 22242 | 22293 | 22709 | 22752 | 23153 |
| 23299 | 23430 | 23510 | 23811 | 23782 | 24185 | 24463 | 24882 | 25201 | 25268 |
| 25400 | 25445 | 25500 | 28199 | 20507 | 26809 | 27012 | 27309 | 27509 | 27604 |
| 28090 | 28258 | 28617 | 20913 | 29115 | 29318 | 29410 | 29863 | 29909 | 29999 |
| 30764 | 30844 | 30900 | 31840 | 37298 | 31501 | 32009 | 32313 | 32866 | 32934 |
| 33048 | 33078 | 33098 | 33628 | 33633 | 33640 | 33051 | 33889 | 34210 | 34550 |
| 34767 | 34949 | 35206 | 35800 | 35831 | 36046 | 38134 | 36158 | 36599 | 36981 |
| 37005 | 37054 | 37373 | 37468 | 37685 | 38120 | 30308 | 30803 | 38901 | 30918 |
| 39005 | 39087 | 39444 | 39664 | 39811 | 40273 | 40378 | 40597 | 40666 | 41044 |
| 41400 | 41444 | 41000 | 41901 | 41948 | 41983 | 42388 | 42617 | 43233 | 43079 |
| 43798 | 43944 | 44833 | 44943 | 45453 | 45643 | 45688 | 45986 | 46467 | 46409 |
| 46676 | 46681 | 46855 | 47186 | 47244 | 47285 | 47347 | 47605 | 47699 | 47839 |
| 48130 | 48182 | 48167 | 40173 | 48322 | 48515 | 48588 | 48686 | 48903 | 49000 |
| 49437 | 49553 | 49829 | 49913 | 49958 | 49975 | | | | |

The above bonds should be presented for repayment to Lloyds Bank Plc, Branches Stock Office, 111 Old Broad Street, London EC2N 1AU, listed on the appropriate forms and must bear all coupons subsequent to 1st January 1986 otherwise the amount of the missing coupons will be deducted from the principal moneys.

NOTICE TO THE HOLDERS OF
**BANCA SERFIN SNC**
SUBORDINATED
CAPITAL NOTES

Copies of the Annual Report of Banca Serfin SNC, can be obtained on request from:

International Division
Banca Serfin S.N.C.
16 de Septiembre 38,
Mexico 1, D.F. MEXICO

**EUROPEAN ECONOMIC COMMUNITY**
**U.S. $ 200.000.000**
**11,5 % BEARER BONDS OF 1983/1995**

We inform the bondholders that the redemption instalment of U.S. $ 20.000.000 nominal due on 18 January 1986 has been satisfied by a drawing on 14 November, 1985, in Luxembourg.

Two thousand bonds in denomination of U.S. $ 10.000,- will be reimbursed at par on 18 January, 1986, coupon due on 18 January 1987 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds (in denomination of U.S. $ 10.000,-) are as follows:
from 703 to 2702 incl.
Amount outstanding after 18 January 1986
U.S.$ 180.000.000,-

L'AGENT FINANCIER
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

**CANADIAN NORTH ATLANTIC WESTBOUND FREIGHT CONFERENCE**
**NOTICE TO SHIPPERS AND CONSIGNEES**
**FREIGHT RATES TO CANADA**
**PAYMENT OF COLLECT FREIGHT**

The member Lines of the above Conference operating services from ports in the United Kingdom, Northern Ireland and the Republic of Ireland to Canadian Maritime, St. Lawrence River and Great Lakes ports wish to refer to the previous press announcement regarding an upward adjustment in freight rates due to take place on 16th January 1986 would advise that the level of increase has now been decided and will be as follows:—

Section 1

Service 1 Rates
Per 20ft Container:
Rates up to $2,000 per Container—to be increased by $180.00.
No rate currently below $2,000 to exceed $2000.
Rates over $2,000 per Container—no increase.
Per 35/40ft Containers:
Rates up to $3,000 per Container—to be increased by $180.00.
No rate currently below $3,000 to exceed $3,000.
Rates over $3,000 per container—no increase.
Service 2 Rates
Existing Differential over Service 1 rates to be maintained.
Service 3 Rates
Where Service 1 rate levels are being increased by $180 per 20ft and $180 per 35/40ft Container the equivalent Service 3 rate to be increased by 10 per cent.
Where Service 1 rate levels are not subject to increase the equivalent Service 3 rate not to be increased.
Where the tariff only provides a Service 3 rate level for a commodity the rate to be subject to 10 per cent increase.
Tank Container Rates
To be increased by $180 per tank container.
Temperature Controlled Containers
To be increased by $500 per temperature controlled container.
Section 2 Rates
Increases as detailed above to apply based on the Ocean Freight level of the Section 2 rate, additionally increases in third party costs in the UK and Canada to be incorporated.
Payment of Collect Freight
The member Lines have to advise that with effect from 15th January 1986, cargo on which freight and charges are on a collect basis will not be released until all freight and charges due and payable have been received by the carriers or their agents.
List of Member Lines
ATLANTIC CONTAINER LINE G.I.E.
CANADA MARITIME LTD.
CAST (1983) LTD.
HAPAG-LLOYD AG.
ML CONTAINERLINE LTD.
SEA-LAND SERVICES INC.
CANADIAN ATLANTIC FREIGHT SECRETARIAT LTD
Secretaries

Stoner House,
Kilnmead,
Crawley,
West Sussex RH10 2BG.

**LEUMI INTERNATIONAL INVESTMENTS N.V.**
**U.S.$60 million floating rate notes 1989 extendible at the holders option to 1992**
**(1st issue)**

The interest rate applicable to the above Notes in respect of the six month period commencing Monday 9th December 1985, has been fixed at 8⅞% per annum.

The interest amounting to US$42.66 per US$1,000 principal amount of the Notes will be paid on 9th June, 1986, against presentation of Coupon No. 8.

BANK LEUMI TRUST COMPANY OF NEW YORK
Principal Paying Agent

**THE ROYAL BANK OF CANADA**
US$350,000,000
Floating Rate Debentures due 2005

In accordance with the terms and conditions of the Debentures, the interest rate for the period December 9, 1985, to January 9, 1986, has been fixed at 8⅝ per cent per annum.

On January 9, 1986, interest of US$72.12 per US$10,000 nominal amount of the Debentures and interest of US$721.18 per US$100,000 nominal amount of the Debentures will be due for payment.

The rate of interest for the period commencing January 9, 1986, will be determined January 7, 1986.

ORION ROYAL BANK LIMITED
Agent Bank and
Principal Paying Agent

## Contracts and Tenders

# Ultramar seeks to buy oil exploration assets

BY DOMINIC LAWSON

ULTRAMAR, the aggressive UK oil company, is preparing to spend up to $500m in acquiring oil exploration and production assets, and is considering a bid for one of a short-list of UK oil exploration companies.

Last week Ultramar clinched a C$120m deal to buy oil refining and marketing assets from Gulf Canada.

Mr David Elton, a director of Ultramar, said that the company had a well-balanced refining and marketing operation, but must now expand its production and exploration interests, particularly in the UK and the US.

Mr Lloyd Bensen, the chairman of Ultramar, added that the company was prepared to spend "between $300m and $500m cash" to achieve this end.

Although it is a UK-quoted company, Ultramar is under-represented in the North Sea, and the problem was exacerabted in the most recent round of offshore oil and gas licences, in which the company was awarded only a part interest in one block.

In 1983 Ultramar approached the Government with a view to taking over some of British Gas's offshore oil interests, but the Government chose instead to float them on the stock market as Enterprise Oil.

Ultramar is looking to acquire a UK company with a wide range of North Sea and onshore interests, and with cash flow from current production. Ultramar will most likely finance the deal by drawing on its onused lines of credit, totalling about $800m.

Ultramar had been part of the group of independent oil companies which acquired British Gas's half share in the Wytch Farm oilfield in Dorset, the largest onshore oil field in Europe. But Ultramar dropped out of the bidding group before the deal was concluded.

Since then the share prices of the oil companies that bought the interest have fallen precipitately, and it is thought that some of those companies are now on Ultramar's short-list.

The companies involved in the Wytch Farm deal are Tricentrol; Premier Consolidated Oilfields; Carless Capel and Leonhard; Clyde Petroleum and Goal Petroleum.

Ultramar's interest in the UK onshore oil scene was heightened by its participation last year in a very promising discovery near Winchester.

# Worries over gas licence terms

BY MAX WILKINSON AND DOMINIC LAWSON

THE TERMS under which British Gas will be licensed as a private monopoly are creating considerable argument in Whitehall. This is not likely to be resolved by the publication of the licence, which is expected today.

The proposals have provoked hostile comments from officials and ministers, who fear that the regulatory body set up to supervise British Gas is not being given adequate powers.

Ministers are also still arguing about whether to de-regulate the supply of North Sea gas by lifting the present restrictions on foreign trade.

Other unsettled business includes important details about how prices should be set for would-be competitors which may want to claim their right to connect into the corporation's pipeline network to supply their customers.

The licence, which the Government plans to publish today, was foreshadowed in the Gas Bill released by Mr Peter Walker, the energy secretary 10 days ago.

This set out the general legal framework for the privatising of British Gas and made it clear that the regulator (Ofgas) would have no power to supervise the pricing of gas in the North Sea, and very limited powers to set gas prices in the contract market for industrial customers.

Although Ofgas will act to some extent as an umpire in disputed contracts, the most important powers are reserved for the Monopolies Commission and the Office of Fair Trading. Mr Walker is likely to argue during the second reading of the bill on Tuesday that the threat of action by the Monopolies Commission will ensure the good behaviour of the new corporation.

However, some ministers fear that this easy regulatory regime will give too much ammunition to the opposition during the debate on the bill. They have argued that public support for the whole privatisation programme could be eroded if it is believed that the new British Gas will provide profits for shareholders without the incentive to improve its service which could come from more competition or tough regulation.

One focus of criticism is that clause 4 of the Gas Bill setting out Ofgas's general duties gives it no general remit to encourage competition. This is a marked contrast with the position of Oftel, which regulates the telecommunications industry.

Another criticism is thet Ofgas does not have power to ask directly for stronger powers if it thinks British Gas is abusing its monopoly position in relation to industrial customers. Its powers could be extended only through a rather involved procedure in which the Office of Fair Trading made an application to the Monopolies Commission.

# Labour inquiry into Liverpool party

BY OUR POLITICAL EDITOR

THE LABOUR Party national executive inquiry into the operations of the district party in Liverpool opened yesterday amid charge and counter-charge over the influence of the Trotskyist Militant group.

The inquiry, headed by Mr Larry Whitty, the party's general secretary, will take written and oral evidence in Liverpool for two days. The aim is to prepare a report for next month's meeting of the full national executive committee.

The inquiry was set up following the condemnation by the parliamentary leadership of the approach of the local district party to the city's budget crisis. At one stage 31,000 redundancy notices were issued.

The annual conference of the Labour Co-ordinating Committee, the main left-wing group broadly sympathetic to the parliamentary leadership, on Saturday overwhelmingly passed a motion of support for the party's inquiry into Liverpool.

The start of the inquiry has been accompanied by a counter-offensive by Militant involving the holding of 100 public meetings throughout Britain, a drive to increase the circulation of the Militant newspaper and extra fund-raising activities.

Labour MPs Mr Tony Benn and Mr Eric Heffer have pledged their opposition to the action of the national executive in calling the inquiry and temporarily suspending the district party.

# Government wants 1987 start on fixed Channel link

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT wants to clear the way for a 1987 start to work on a fixed link between England and France. This is despite the opposition which will be expressed in the House of Commons later today, by a number of Tory MPs and the Labour Party to the speed with which decisions are being taken.

Opening the full-day consultative debate, Mr Nicholas Ridley, the Transport Secretary, will emphasise the Government's desire to press ahead with the project on national grounds, despite local objections.

He will make clear that no decision has yet been taken between the four main options despite the claims of lobbyists for the competing groups. But he will indicate a desire for maximum competition in methods of crossing the Channel between the two countries. This could lead to support for a combined rail and road link, variants of which have been submitted by two groups.

A public inquiry has been ruled out because of the probable delay. The expected timetable is thet the technical assessment will be completed within the next few days in time for decisions by ministers of the British and French Governments in the next few weeks and the signing of an agreement with France next month.

A special hybrid bill would be laid before parliament which would allow objectors to present their views to MPs.

This procedure has been attacked as too hasty both by some Tory MPs from Kent, south-east England, and by the Labour Party. Mr Roger Stott, one of Labour's transport spokesmen, said yesterday the timetable was "far too short" since the impact on shipping, employment at ports and the environment should be considered more fully. Labour intends to vote against the Government tonight because of the failure to hold a public inquiry.

Some Tory MPs may also vote against the Government or abstain. Mr Jonathan Aitken, MP, said on Thursday that decisions were being made with "indecent haste and unnecessary secrecy."

Despite the reservations about the way the decisioo is being taken, however, most MPs broadly favour some form of Channel fixed link. On the Conservative side, many MPs, including apparently Mrs Margaret Thatcher, the Prime Minister, favour the maximum flexibility to avoid dependence on the rail unions.

# MPs seek review of policy on competition

By Our Political Editor

THE Government will come under increased pressure this week from MPs to accelerate its review of competition policy in the light of the latest wave of takeover bids.

Labour and Alliance spokesmen yesterday claimed that the scale and number of recent bids raised questions both about the structure of industry and the operation of the Government's competition policy.

Mr Michael Howard, the junior Minister for Corporate and Consumer Affairs, announced three weeks ago that a general review of competition policy would be undertaken next year.

The official word yesterday was that there were no plans at present for accelerating the timetable, but this may change in view of the latest City developments.

Even before the Hanson bid for Imperial Group on Friday, a number of senior Tory MPs were expressing concern and calling for clarification of how far the Government's yardstick for referring bids te the Monopolies and Mergers Commission remains primarily on competition grounds.

Mr Bryan Gould, Labour's trade spokesman, has argued that companies are having to operate in a vacuum

# Individual investors targeted in plans for privatisation

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE BRITISH Government anticipates that at least half of the £14.75bo it expects in revenue from its privatisation programme during the next three years will be raised from individual investors. It is likely to aim for an even higher figure from individuals.

The Government is therefore assuming that about £2.5bn a year of individuals' savings may be absorbed by asset sales, a development which is expected to intensify the strong competition for personal deposits among building societies and banks.

The confidence that financial markets will be able to cope with the speedy implementation of privatisation is partly explained by a perception of vast wealth in the personal sector.

At the same time the cash position of the major institutions is expected to improve because of the ending of official "overfunding" in the gilt-edged market, lower inflation, and a much-reduced level of overseas investment.

The increased emphasis oo targeting sales towards private investors has been reflected in the framing of the terms of this week's sale of the Government's remaining 23 per cent share in Cahle & Wireless.

Only one third of the shares have been firmly pre-placed with institutions compared with the 61 per ceot reserved for institutional or overseas buyers when British Telecom was floated last year.

This technique, which allows shares to be clawed back from institutional underwriters if an offer is heavily oversubscribed by the public, is expected to feature in future flotations. The key to a successful sale for individual investors is to create the belief before ao issue that shares will be in short supply, but then ensure that applicants are oot disappointed if there is heavy demand.

The privatisation programme for next year has been unaffected hy the delay in the flotation of the Trustee Savings Bank. The Treasury cannot fit in another issue in the early months of the year because the prospectus for any direct sale by the Government would have to include details of possible budget measures which could affect the value of the shares.

The £4.75bo expected for the 1986-87 financial year will come from a third instalment due on British Telecom and the sale of British Airways, the Royal Ordnance factories, the National Bus Company and a first instalment from British Gas.

# INSURANCE

## Lloyd's council to study underwriting code

BY JOHN MOORE, CITY CORRESPONDENT

RULES TO end abuse within the Lloyd's insurance community are to be studied today by the market's ruling council.

The council is to discuss "preferred underwriting," one of the most controversial practices in the Lloyd's market. So far there has been resistance within Lloyd's to reform the practice.

Lloyd's was forced to consider the practice more than two years ago after complaints from among its 26,050 underwriting members. They were concerned that certain of the market's professionals may be providing themselves, their families and friends with hidden financial benefits through the syndicate system at the expense of the wider membership.

Members of Lloyd's are grouped for operational purposes into syndicates. There are 21,000 members who do not work at Lloyd's but who pledge their capital to allow the market to function. The remainder is formed of Lloyd's professional insurance brokers and underwriters.

Underwriting members discovered that among the 430 or so syndicates operating in the market there were at least 30 with a small number of members. Places on these "baby syndicates" were usually reserved for the market's professionals, their relations, friends and business associates. In one instance, a syndicate consisted of only one Lloyd's professional.

The baby syndicates were regarded as an ideal way to provide additional remuneration and incentive to the market, such as to the brokers for providing business for the largest syndicates.

The practice led to abuse. More selective, and usually highly profitable business was passed to the small syndicates at the expense of the larger. It also became usual for one professional underwriter to underwrite for both a large syndicate and a baby syndicate. Some underwriters "preferred" the smaller syndicate over the large syndicate when business was accepted at Lloyd's.

In 1983, a working party led by Mr Alec Higgins, a former deputy chairman of Lloyd's said: "We recommend that preferred underwriting should be banned. The duty in law of an agent to his principal is so clear and so strict as to be incompatible with preferred underwriting."

Following representations from the market, Lloyd's decided not to ban preferred underwriting. In July this year it indicated that it would curb abuses through the operation of a code of practice.

## FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Glaxo Hldgs, The Dorchester Hotel, Park Lane, W. 12.00
Microfilm Reprographics, The Institute of Chartered Accountants, Moorgate Place, EC. 12.00
New Cavendish Estates, 24 Austin Friars, EC. 10.30
Peters (Michael) Group, 3 Dial Street, W. 10.00
Prestwich Hldgs, The Institute of Chartered Accountants, Moorgate Place, EC. 12.00
Tyzack (W. A.) Hallam Tower Post House, Sheffield. 10.30

BOARD MEETINGS—
Finals:
Dobson Park Inds
Hunslet
Johnson & Firth Brown
Reliant Motor
Wolverhampton & Dudley Breweries
Interims:
Carlyns
F & C Alliance Inv
Hazlewood Foods
Lovell (G F)
Lysander Petroleum
Preedy (Alfred)
Property Holding & Inv Tst
Steel Conversion
Tiphook
Vinten
West's Group Intl
Whitecroft

DIVIDEND & INTEREST PAYMENTS—
Ahmanson (H. F.) 30 cts
Britannia Security Group 0.75p
East Rand Gold and Uranium 15.5pcDbs 1988-91 7½pc
English National Invest 3.3p. Dfd 0.85p
Harrisons and Crosfield 4.5p
Investments Fltg Rate Notes 1989 $60.79
Lloyds Bank Primary Fltg Rate Notes $611.11
MY Dart 0.325p
Marshall's Universal 1p
Midland Intnl Financial Services Fltg Rate Notes 1992 $205.58
Nedlloyd Finance Fltg Rate Notes 1996 $213.28
Rockwell Intnl 28 cts
Rosehaugh 3.92p
Royal Bank of Canada Fltg Rate Dbs 2005 $72.78
Sears 0.9p
Tay Homes 3.1p
Tyne Tees Television Hldgs A (N-Vtg) 3p
Wells Fargo Fltg Rate Notes 2000 $73.33

TOMORROW

COMPANY MEETINGS—
Scottish Metropolitan Property, The Albany Hotel, Glasgow. 11.30

BOARD MEETINGS—
Finals:
Borthwick (Thomas)
Burns-Anderson
City Site Estates
Durban Roodepoort Deep
East Rand Proprietary Mines
Greenall Whitley
McCorquodale
McLeod Russel
Morceau
Nottingham Brick
Plaxtons (GB)
Vaux
Windsor Securities
Interims:
Berkeley Grp
Blyvooruitzicht Gold Mining
Chapman Inds
Chloride
Fairbriar
Fleming Overseas Inv Tst
Imperial Continental Gas
International Leisure
Latham (J)
Meyer Intnl
Norcros
Optometrics
RFD
Sylone
Warehouse

DIVIDEND & INTEREST PAYMENTS—
Allied Irish Bank Fltg Rate Notes 1995 $403.40
Barnes Group 25 cts
Boeing 27 cts
Chevron Corpn 60 cts
Dart and Kraft Inc 59 cts
Dun Bradstreet Corpn 55 cts
General Motors $1.25
Grace (W. R.) 70 cts
Houston Industries 66 cts
Lockheed Corpn 20 cts
M & G Japan Smaller Companies Fund 0.01p
Rolinco NV Fl 1.64. Sub-Shs (Reg Nat Prov Bank) Fl 0.164. Sub-Shs (Reg to Other Names) Fl 0.164
Scott Paper 31 cts
Squibb Corpn 44 cts
Sun Inc 57.5 cts
Sun Life Assurance Society 9.34p
Tenneco Inc 78 cts
Texaco Inc 75 cts
Toray Industries Y3
Toshiba Y4
Travelers Corpn 51 cts
Tyzack (W. A.) 1.1p
United Technologies 35 cts
Warner-Lambert 39 cts

WEDNESDAY DECEMBER 11

COMPANY MEETINGS—
London Entertainments, 1 Finsbury Avenue, EC. 11.00
Manganese Bronze Hldgs, 1 Love Lane, EC. 12.00
Murray Electronics, The Barbican Centre, EC. 10.30
Pearce (C. H.), Parklands, Stoke Gifford, Bristol. 12.30
Photo-Me Intnl, Station Avenue, Walton-on-Thames, Surrey. 6.00

BOARD MEETINGS—
Finals:
Albion
Assoc Paper Inds
Baggeridge Brick
Cooper (Fredrick)
Flexello Castors & Wheels
Granada
Irish Distillers
NSS Newsagents
Stakis
Tate & Lyle
Interims:
Anderson Strathclyde
Braithwaite
British Building & Eng Appliances
Bulmer (H.P.)
Deelkraal Gold Mining
Deritend Stamping
Doornfontein Gold Mining
Driefontein Cons
Havelock Europa
Kloof Gold Mining
Libanon Gold Mining
M & G Second Dual Tst
Marling Inds
Venterspost Gold Mining
Vlakfontein Gold Mining
Wagon Inds
Yellowhammer

DIVIDEND & INTEREST PAYMENTS—
Bankers Trust New York Fltg Rate Notes 2000 $213.28
Banque Nationale De Paris Fltg Rate Notes 1994 £311.79
Hewden-Stuart Plant 0.575p
Local Authorities 10pcBds 11/12/85 £5.1644
London County 5½pc 1985-87 2.75pc
Mid-Sussex Water 14pcDb 1996-88 7pc
RBC Canadian Fund Pf C$0.108
Technofan FFr100

THURSDAY DECEMBER 12

COMPANY MEETINGS—
Frogmore Estates, Barber-Surgeons Hall, Monkwell Square, Wood Street, EC. 10.30
Gomme Hldgs, Sprign Gardens, High Wycombe, Bucks. 10.30
ICC Oil Services, The General Council of British Shipping, 30-32 St Mary Axe, EC. 9.30
London and Provincial Shop Centre, 26 South Street, W. 3.00
North Atlantic Securities, 23 Great Winchester Street, EC. 2.45
Samuel Properties, 100 Wood Street, EC. 3.00
Smart (J.) (Contractors), 28 Cramond Road South, Edinburgh. 12.00
TR Australia Invest Trust, Mermaid House, 2 Puddle Dock. 10.30

BOARD MEETINGS—
Finals:
Adam Leisure
Carr's Milling Inds
Crystalate
Eldridge Pope
English China Clays
Inn Leisure
Siplaw
Spencer Clark Metal Inds
Whessoe
Interims:
RET
Baker Perkins
Brasway
Bristol Evening Post
British Telecom
Charter Cons
Fuller Smith & Turner
Greycoat
Harris (Philip)
Ingram (Harold)
Monk (A.)
Northern Foods
Old Court Currency Fund
Philips Lamps
Pilkington Bros.
Reed Executive
UKO Intnl
Viewplan

DIVIDEND & INTEREST PAYMENTS—
Bank of Tokyo (Curacao) Hldgs Fltg Rate Notes Dec 1991 $206.51
Billam (J.) 1.4p
Citicorp Overseas Finance Corpn Fltg Rate Notes 1994 $21.8
Eaton Finance 12½pcLn 2014 8½pc
Exchequer 12pc 2013-17 6pc
Fleming Fledgeling Invest Trust 6¼pcDb 1990-95 3⅛pc
IBL 0.4p
London Entertainments 2.33p
Milletts Leisure Shops 1p
Monsanto 62½ cts
Nedlloyd Finance Fltg Rate Notes 1993 $2,180.21
Peters (Michael) Group 1.6p
Photo-Me Intl 1p
Southeast Banking Corpn Fltg Rate Notes 1998 $413.02
Spring Ram 0.605p
Treasury 12pc 1986 6pc
Do 10pc 1987 5pc
Treasury 12pc 1958 6pc. 10pc 1987 5pc

FRIDAY DECEMBER 13

COMPANY MEETINGS—
Berry Trust, 8 Devonshire Square, EC. 12.30
Border and Southern Stockholders, Winchester House, 77 London Wall, EC. 10.45
Highland Electronics, Highland House, 8 Old Steine, Brighton. 12.30
Mckechnie Bros, The Metropole Hotel, Birmingham. 12.00
Nolton, The Great Eastern Hotel, Liverpool Street, EC. 12.00
North Sea Assets, 1 Charlotte Square, Edinburgh. 12.30

BOARD MEETINGS—
Finals:
Chemring
Clydesdale (Transvaal) Collieries
Nardys & Hansons
Piccadilly Radio
Interims:
DBE Technology
Greene, King
Woodhead (Jonas)

DIVIDEND & INTEREST PAYMENTS—
Arbuthnot Yen Bond Fund Pf Inc Y5
Banco Nacional De Desarrollo Fltg Rate Notes 1987 $48.29
Britoil 4p
Burgess Products 1.5p
CSX Corpn 29 cts
Comcap 0.8p
Cummins Engine Inc 55 cts
Dana Corpn 32 cts
Elys (Wimbledon) 1p
Framlington Overseas Inc and Growth Pf 1p
Free State Geduld Mines 98.84505p
Frogmore Estates 5.151p
GATX Corpn 30 cts
Graig Shipping 5p
Graig Shipping 5p. A N-Vtg 5p
Hill (Philip) Invest Trust 5p
Hunting Assoc Inds 3.5p
Klark-Teknik 0.5p
London Atlantic Invest Trust 1.95p
Louisiana Land and Exploration 25 cts
Murray Electronics 0.1p
NSC Corpn Y4.5
New Central Witwatersrand Areas 15.76500p
Outwich Invest Trust 1.1p
Portsmouth and Sunderland Newspapers 1p
President Brand Gold Mining 67.00127p
President Steyn Gold Mining 65.58751p
Seagram 20 cts
Shiloh 1p
Stani Bros Hldgs 4p
Thomas Nationwide Transport 3 cts
Usher-Walker 2.2p
Ward White Group 1.95p
Welkom Gold Mining 53.36926p
Western Hldgs 126.74753p

SATURDAY DECEMBER 14

DIVIDEND & INTEREST PAYMENTS—
ASCI 5½pcPf 5.5 cts
Agricultural Mortgage Corpn 10¼pcDb 1992-95 5⅛pc
Conversion 9pcm 2002 4.75pc
Narborough Plantations 1.3p
Saker's Finance Invest 5½pcPf 5.5 cts
Treasury 10½pc 1989 5.25pc. 9¾pcCev 1988 4.875pc

SUNDAY DECEMBER 15

DIVIDEND & INTEREST PAYMENTS—
BOC Group 9pc Tonnage Db 1986 4.5pc. 9pc Tonnage Db 1990 4.5pc. 11½pc Tonnage Db 1992 5.75pc
BSR Intnl 5½pcLn 1985-90 2.75pc
British Alcan Aluminium 8¼pcDb 1961-86 4.125pc
Caisse Nationale Des Autoroutes 16pcLn 2006 8pc. 16pcLn (Br £5,000) 8pc
CalFed Inc 12 cts
Drayton Premier Invest Trust 4¼pcDb 2.125pc
Guardian Royal Exchange Assurance 7pc Ln 1986-91 3.5pc
Home Charm Group 7pcLn 1997-2004 3.5pc
King and Shaxson Pf 1.75p. 2ndPf 1.75p
M & G Midland and Gen Trust Fund Inc 7.7p
Mercantile House Hldgs Ln Notes 1984-89 6.20445p
New Zealand 7½pc 1983-86 3.75pc
Owens-Illinois Inc 45 cts
Pennzoil Company 55 cts
Ranks Hovis McDougall 7⅛pcLn 1981-86 3.5625pc
St Lawrence and Ottawa Railway 4pcBds 2pc
Singer 10 cts
TRW Inc 75 cts
Treasury 8¼pc 1987-90 4.125pc
United Biscuits 7½pcDb 1981-86 3.75pc. 8pcDb 1993-98 4pc. 5¼pcLn 2003-08 2.625pc
WMC Finance 15½pc Notes 1988 7.75pc
Winterbottom Energy Trust 3½pcPf 1.75p







# This week in Parliament

TODAY

**Commons** — Debate on Channel fixed link, on a motion for the adjournment. Debate on a motion to take note of the European Community documents relating to hormone growth promoters.

**Lords** — Motion for approval on the Police and Criminal Evidence Act 1984 (Codes of Practice) (No 1) Order 1985. Marriage Bill, Second Reading. Incest and Related Offences (Scotland) Bill, Second Reading. Unstarred question on whether HMG consider that Soviet involvement in southern Africa poses a threat to British interests in the region.

**Select Committees** — Home Affairs: Race Relations and Immigration subcommittee — Subject: Immigration from the Indian subcontinent. Witness: Mr D. Waddington QC, MP, Home Office Minister of State and official from the Foreign and Commonwealth Office (Room 6, 4.15 pm). Treasury and Civil Service — Subject: International Monetary arrangements. Witness: Mr Ian Stewart MP, Economic Secretary to the Treasury (Room 15, 4.30 pm).

TOMORROW

**Commons** — Second Reading of the Gas Bill. Remaining stages of the European Communities (Spanish and Portuguese Accession) Bill.

**Lords** — Statute Law (Repeals) Bill, Second Reading. Industrial Training Levy (Construction Board) Order, 1985, motion for approval. Atomic Energy Authority Bill, Committee. Agricultural Holdings Act 1948 (Variation of Fourth Schedule) motion for approval. Misuse of Drugs Act 1971 (Modification) Order 1985, motion for approval. Human Rights and Fundamental Freedoms Bill, Second Reading.

**Select Committees**—Energy—Subject: Regulation of the Gas Industry. Witnesses: British Gas Corporation (Room 8, 10 am.) Education, Science and the Arts—Subject: Achievement in primary schools. Witnesses: Leonard March, Principal, Bishop Grosseteste College; Dr John Thorley, Principal, Charlotte Mason College; Polytechnics Council for the Education of Teachers (Room 15, 10.30 am). Committee on a private bill—Felixstowe Dock and Railway (Room 5, 10.30

WEDNESDAY

**Commons**—Opposition Day—Debate on a motion entitled the Housing Crisis and Urban Deprivation. Motion relating to the Crown Prosecution Service (Transfer of Staff) Regulations. Debate on a motion to take note on the European Community documents relating to the European Regional Development Fund.

**Lords**—Short debate on the position in Liverpool arising out of the actions of the City Council. Short debate on the economic, social and cultural consequences of government policy towards higher education. Suicide Act 1961 (Amendment) Bill, Second Reading. Unstarred question on whether HMG will appoint a Secretary of State for the North, pari passu with the Scottish Secretary, Wales and Northern Ireland, with special responsibility for representing in the Cabinet the need to promote industrial regeneration and social progress of the north.

**Select Committees**—Foreign Affairs — Subject: Foreign Policy Matters. Witness: Rt Hon Sir Geoffrey Howe MP, Foreign Secretary (Room 15, 10.30 am). Trade and Industry—Subject: Inquiry into the tin crisis. Witnesses: London Metal Exchange representatives; Mr G. J. O'Neill and Mr F. Murphy of Metals Ltd (Room 16, 10.45 am). Defence—Subject: The implications for the UK of strategic defence. Witnesses: DTI officials (Room 6, 11.30 am). Employment — Subject: Discrimination in employment. Witness: The Commission for Racial Equality (Room 8, 4.15 pm). Home Affairs—Subject: Misuse of hard drugs. Witness: HM Customs and Excise (Room 20, 4.15 pm). Public Accounts — Subject: Motorways and Trunk roads. Witness: Sir Peter Lazarus, KCB, Department of Transport (Room 16, 4.15 pm). Social Services — Subject: Resettlement units. Witness: John Major MP, DHSS Under-secretary (Room 21, 4.15 pm). Treasury and Civil Service Sub-committee—Subject: Civil Servants and ministers; Duties and responsibilities. Witnesses: Association of First Division Civil Servants and the Council of Civil Service Unions (Room 15, 4.15 pm).

THURSDAY

**Commons** — Debate on a motion to approve the Chancellor's Autumn Statement. Motion on the Social Security (Contributions de-rating) Order.

**Lords** — Legal Advice and Assistance (Prospective Costs) Regulations 1985, motion for approval. Animals (Scientific Procedures) Bill, Committee. Forestry (Modification of Felling Restrictions) Regulations 1985, motion for approval. Merchant Shipping (Prevention of Oil Pollution) (Amendment) Order 1985, motion for approval.

**Select Committees**—Energy—Subject: Regulation of the Gas Industry. Witnesses: Prof Brian Carsberg; GUARD and the TUC (Room 8, 10.45 am). Agriculture—Subject: The disposal and storage of cereal surpluses. Witnesses: Food aid experts (Room 16, 10.45 am). Committee on a private bill—Felixstowe Dock and Railway (Room 5, 10.30 am).

FRIDAY

**Commons** — Private members motions.



BUILDING CONTRACTS

# Hanley shopping centre

A major 330,000 sq ft shopping centre development for Hanley, Stoke-on-Trent, is to be built by SHEPHERD CONSTRUCTION under a contract worth almost £27m.

Developer is Capital & Counties, in association with Stoke-on-Trent City Council, who own the freehold of the 5.5-acre site. This lies astride Quadrant Rd and between Market Square and Town Rd, Hanley.

The scheme includes shopping malls on two levels, a 37,000 sq ft market hall, a 500-seat food court and car parking for 1,200 vehicles. Ten major space users are envisaged and there will be 58 standard shop units. The existing Lewis's department store will be refurbished and integrated into the scheme, and the adjoining Littlewoods store will be extended to link into the Centre.

London architects Michael Haskoll Associates are designers of the development, which includes extensive planting, wall climber lifts, spectacular vistas and natural light from glazed roofs.

Work has begun and is programmed for completion in mid-1988 after a 140-week contract period. B. Kettle of Etruria is carrying out the excavation subcontract and Tarmac Topmix will be supplying approximately 34,000 cu m of concrete from its plant, which is also at Etruria.

*

WHATLINGS (BUILDING), part of the Alfred McAlpine construction division, has been awarded three contracts totalling £1.4m for construction work in Scotland. The first contract, worth £570,000, has been awarded by the Clydesdale District Council for the design and construction of 20 sheltered houses and a community building in Carluke. The work has started and is due for completion in October 1986. The second, worth £287,000, is for a depot for the water and sewerage department of the Highland Regional Council. Work on the single-storey building has started, for completion in April. The third, worth £587,000, is for refurbishment of tenement properties in Glasgow to create 27 flats on behalf of Whatco Developments (a joint property company set up by the Co-operative Wholesale Society and Whatlings).

*

THE JOHN LELLIOTT GROUP has won contracts worth £10m. Embracing a variety of construction, work includes a £2.3m building and fitting-out of a Tesco store in Epping; a project on behalf of Manufacturers Hanover Trust in Cannon St, EC4; a £500,000 refurbishment of the foyer and reception of the Kensington Hilton; and a £800,000 conversion of offices in Godliman St, EC4. John Lelliott Special Works has secured £1m contracts, working for Mercers Company, Legal and General, the Derbyshire Pension Trust and the Guardian Royal Exchange.



# Falklands hospital

FAIRCLOUGH MILLER has won another contract in the Falkland Islands. The joint venture has been appointed main contractor by the Overseas Development Administration for a major hospital scheme at Port Stanley. The £10m order includes the construction of a new general hospital—together with sheltered housing, staff accommodation and related facilities—and the remodelling and refitting of the Churchill wing of the original hospital on the same site. The new hospital complex has been designed by the Building Design Partnership, which is also acting as project manager. Construction has started with completion programmed for January 1987. Fairclough International Construction is part of the AMEC construction and engineering group. Miller Construction Northern is a subsidiary of James Miller & Partners.

*

A TESCO superstore is to be built at Culverhouse Cross, Cardiff, under a design-and-construct contract worth more than £6.5m to KYLE STEWART. Work has started and is due for completion in October next year. The 28-checkout superstore, with a 65,000 sq ft sales area and parking space nearby for up to 650 vehicles, is on 15 acres of a total 30-acre greenfield site, the remainder of which will include a 250,000 sq ft industrial development at a later date. Construction of the store will be of composite concrete post and steel lattice beam frame, with tiled pitched roofs.

*

TAYLOR WOODROW CONSTRUCTION (NORTHERN), Darlington, has been awarded an £870,000 contract by Newcastle City Council to build an extension to the Lightfoot Sports Centre.

## Lutoslawski/Elizabeth Hail

**David Murray**

Witold Lutoslawski's concerts with the London Sinfonietta have become popular celebrations. Last Thursday's plainly waa, with a targe-ish audience settling into the Elizabeth Hall confident that they *like* what this man does. Few contemporary composcrs have secured that kind of response—among the unarguably "originai" composers, very few indeed. At 73, you might think he has had time enougb to secure it; but he was already 45 when bis *Musiquc funèbre* made bis name internationally known fand mispronounced): the second "l" isn't an "l" but a Polish thing, rebarbative to Western typesetters, and It sounds more like a "w").

I remember very well the London première of *Musique funèbre*, composed in memory of Bartók but on "aerial" principles which Bartók bad never espoused, though he had his own analogoua methods. In the musicat ctlmate of the late 1950s, indiscriminately hospitahle to opaque music that appealed more to theory than to the ear, *Muslque funèbre* was a surprise: it was quite transparent, It had obvioua roots in the post, and yet It waa both creditably original and immediately convincing. It *spoke*, in short, and you didn't have to have read the programme-note first.

We discovered only tater that *Musique funèbre* represented the first phase of a mature, sophisticated composer'a stripping-down of his musical means; and that his *Jeux vénitiens* of 1961 would complete the cxerclae, relying wbolly on new devices—always candid—to fill up a hig musical space cogently. Since then Lutoslawski haa found ways of reintroducing familiar kinds of gesture, like the florid cadenzas of the Double Concerto that was delectably repeated on Thursday, but always within his own kind of construction. His terms are honest (where the music intermittently aounds danse end abstruse, its elements always prove to be simple), and whot he does with them is inimitahly peraonal—witty ehove all, but with a wider, darker expressive ranga too.

Besides the Double Concerto, which reconstructs the traditional display-plece as lf out of children's blocks with great comic panacha (tbe oboiat Gareth Hutse and the harpist Nuala Herbert were hrilliantly flucnt), we beard again Lutoslawski's 1983 gift to the Sinfonietta, *Chain 1*. (*Chain 2* is coming in the New Year). He likes to come beoring gifts: this time hc hrought 17 Polish Christmas Carots, too.

Again I fonnd *Chain 1* a marvel, huhbting with inventions that are unforaseeable hut instantly plausible, and marvetlously conceived for the ear.

Tbe "new" set of Carots is of a quita different ordcr: Lutoslawski has orchestrated his commissioned 1946 verslons of traditionat Cbristmas songs, quite straight, without bia up-to-date devices. The tunes are faithfully left intact, the harmony often gently skewed—much in the manner of bie 1941 "Paganini" Variations for plano duo, but witbout irony or miscbief. Insteod, the effect is to shadow the innocent melodies with conscious, tendcr concern—a sort of devoted anxiety, rather private and yet ploln to hear. Oblique frankness ls his apecial gift.

## The Crucible/Young Vic

**Martin Hoyle**

What sotid, durahle and stilt nail-bitingly vital theatre this is! Apart from the McCarthy witch-hunts, apart from the chilling glimpse of the psychology of bysteria that recalls the Nurembourg rallies, Arthur Miller's recreation of the Salem persecutions in tbe colonial America of the 1690s needs no special hislorical justification. *The Crucible* stiti works simply and triumphantly as a play. Thereafter, as with all good plays, you can peel tayer after layer of meaning from it as you will.

I have aome reservations about David Thacker's serviceahle production for the Young Vic. The intensity of Salem's superstitious hioodlust was a reaction against a rigidly disciplined and emotionally repressive society (the awful perversity of Seoator Joe's demagoguery, conversely, would lie in the way it blossomed ln one of the freest and most open societies ever). Against the background of a harsbly auslere puritanism, adolescent girls dance naked in the woods, suppressed sexuality cbannelled into envy and malevolence.

The courtroom scene where the tying cbildren claim to be supernaturally terrorised by one of their number who has decided to tell the truth, can he one of the most thrilling in modern drama. A certain robust, all-sbrieking excitement comes through in this production; but net the shocking contrast between the godly and the vicious, the fcrat beneath the starcbtly civitised.

A cerlein physical raggedness in the production is epitomised by Matthew Marsh as John Proctor, all dour integrity, doomed by his refusal to compromise. Immensely intelligent as Hamlet or the jailed South African dissident Albie Sachs, Mr Marsh seema happier with the cerebral than the physical. Self-conscious in movement and unusually hoarse, he looks ill at ease until the rhetoric of the final scene when Proctor decides compromise and death. A stouching deportmenl and Mr Marsh's own bairstyle contribute to a disconcertingly modern figure.

As the wife whose cotdness drives Proctoc to the maidservanl with fatal results, Margot Lelcester's worn, weary realisation—too late—that love ontweighs her proud self-righteousness, is touching. Abigail McKern adds to ber gatiery of beautifully-finished portraits as poor Mary, terrified ont of recanting by the baleful Abigail. The latter Is ptayed by an actress new to ma, Cornelia Hayes, with the look nf a young (and, appropriately, nastler) Meryl Streep and an attack that promises well. Maggie McCarthy and David Glover etch the denouncing Putnams, rancorously paranoid and greedily acquisitive respectively, in bold strokes, reminding us of the different levels of motivation in all persecution; and Peter Geeves perfectly captures the local functionary blooming into self-important officiousness.

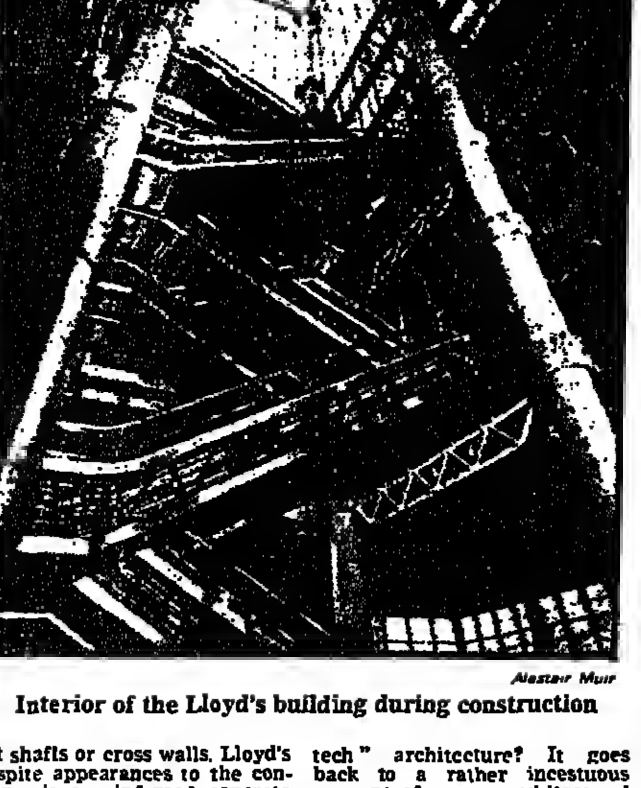
Further reservations include the mannered preciosity of Geoffrey Beevers's Reverend Parris which contrasts unfavourably with the gentle, almost small-scale approach of Hugh Ross. As Hale, the religious examiner who comes lo bave terrible doubts about the madness round him, Mr Ross's carefully understated performance grows in calm authority. This is what Corin Redgrave's Deputy Governor lacks. His educated Scots accent is a mistake: this is traditionally the eccent of scepticism.

But the whote production does justice to a fine play, not least Miller's beautifully-balanced answer to the language problem in historical dialogue. The Mummerset (how well the British premier went in Bristol 30 years ago), complete with archaic grammar, sounds absolutety right.

## Architecture/Colin Amery

# Cool cathedral for Lloyd's

In the summer of 1970 Richard Rogers, with his then partner Renzo Piano, was just one of aome 681 proctiees that hod entered the Internotional competition to design the Pompidou Arts Centre in Paris. When it came to the question of who was to design Lloyd's in London, a different system was adopted. A shortlist of some 40 architects was whittled down to six who were then asked to offer an approach to the particular problem and not, at that stage, to come up with a final archllectural solution.



Alastair Muir

Interior of the Lloyd's building during construction

The preaent character of the new Lloyd'a building, due to be in use in January with e grand opening later in the year, goes hack to Rogers's original design strategy. Tbe great need was for an nnderwriting room three times the size of the present one which would be flexibte enough to expand with the market while retaining the traditional atmospbere of tha old Ltoyd'a, keeping the "boxes" but in such a way that the latest office and communications technology could ba fitted in. When underwriting was slack there had to be a provision for unlet space to be ntilised as commercial offices.

Out of this initial strategy bas emerged the present Lloyd's, with The Room ot the foot of a giant atrlum wbich is surroundad by 12 gallerles which can he tenanted offices or parts of the underwriting space. This approach has given tha building a bigh plot ratio; there is something like eight times the site area utilised as office floor space—at total gross area of some 520,000 sq ft. This aolution has at its heart a huge rectangle of usable space achieved hy the removal of stairs, lifts and services to a series of six satellite towers on the outside of the building.

Richard Rogers's fame as an architect undoubtedly goes hack to the one, rery simple idea that he has consistently maintained: that if you bang all the services for a buitding on the outside there is going to bc a lot more clear space within. So far, so logical. But what about the structure? How are these great frae spacas to stand np? As at the Pompidou Centra the supporting cotumns ara all outside the glass walls (ot Lloyd's there are eight insida the atrium and 20 outside tha main walls) thus creating a curiously Indeterminate areo around the circumfarence of tha building.

It is here that the difficulties start. You have a large hullding with large floor areas that have to be supported and no internal stabilising forms like lift shafts or cross walls. Lloyd's despite appearances to the contrary, is o reinforced concrete structure—floor beams yolked to columns with heavy brackets, visible, like knuckle joints, all rouod the outside of the structnre. To give this the support it needs there has to be a lot of diagonal bracing and this ia very visible on the outside. The handsome glazed barrel vault ls, in turn, connected by steel castings to tba central columns.

It is necessary to understond a little about the structure of this new home for the insurance markel because the whola place Is a giant example of civil engineering. Heating and cooling and draining the place has led to the largest example in London of the Pompidou school of *tubage*—a new French word for tha exposure of all those tubes and service ducts that, until recently, were decently hidden. Lloyd's Is o much more restralned example of this genre Unlike its Influentiol Gallic counterpart it does not flaunt its innards in full technicolour. Lloyd's Is cool, silrery and relatively discreet.

What is the origin of what has come to he called "high-tech" architecture? It goes back to a rather incestuous moment of recent architectural history when the yellow submarine of a London group called Archigram camc to the surfoce at the Architectural Association. Their premise was—and I believe that some of their eging number still believe it—that tbe future for mankind lay in a bighly serviced megastructure. The centres of our cities would resemble oil refineries, and we would wbizz about in tubes gazing enraptured at the giant machines that have replaced architecture as we know it.

The Pompidou Centre was closer to this dream than olmost anything hefore or since. It was built in Paris os one example of a certain kind of *haute couture* modernism that until the 1970s had been missing from the Poris collections. If you stond on the Rue du Renard, where tha centre lets all its services bang out with a vengeance, you behold a menacing sight. Of conrsa the much heralded flexible spaces Inside have proved to be the most unpleasant galleries in Europe and they are now being remodelled.

It must be said immediately that this approach represents the very junior manifesto of this practice while Lloyd's represents something of an advance. What Lloyd's has in its atrium is a fine, cathedral-like space with a return to elements of erchitectural form, particularly in the elegant Paxton-inspired curved roof vault. The complexity of the inside of the Pompidou has been restrained at Lloyd's; computer technology and tetecommunications are tocated beneath the floor and there is much less "celebrotion of the servicing."

I would tike to write about the inside of Lloyd's when it has been open end functioning for longer. The impression now is of e remarkable, and in its way beeutuful, internal space which when it is full of activity with the escalators rolling will be a magnet at the centre of the City. The newly developed translucent glazing for the walls (except where it is clear) seems to make the interior somewhat cloustrophobic especially under tbe galleries. You can see the light but you cannot see out. The glass lifts on the outside will bring to London the kind of excitement that has been commonplace in American hotels for years — but the view will be good. The whola place *must* be kept as highly polished as a ship and the maintenance ls going to be an expensive business. The Pompidou Centre looks rusty and decrepit if you see tt on one of its bad days. I gather the pigeous have taken a shine to Lloyd's and the combination of guano and stainless steel doea not sound too promising.

The Committee at Lloyd's decided it wants to ecsape from the world of high technology on the top two floors and bas commissloned a leoding French decorator to do up the rooms in an antique style to go with the reconstruction of the Adam room that Lloyd's has nsed since it moved it from Bowood House in Wiltshire for committea gatherings. Is this a loss of narve, a refusal to sit on chairs with holes in the seots, or just a natural instilutional conservatism?

The probtem with buildings of this kind is that they bave littla symbolic value; they lack the third dimension of meaning. But there is no doubt that Lloyd's is a *tour de force* of engineering and mechanics, to he admired despite its damaging effect on some famous views and its permanently unfinished look. And once its eccentricities have been absorhed its more lasting qualities should emerge.

## The Magic Flute/ICA

**Martin Hoyle**

After *Figoro* the West End musical comes *Die Zouberflöte* as egg-bead panto. The ICA, as ballowed a temple to the bigher things as Sarastro's domain, is mounting *The Magic Flute*, hitled in the programme as "Scbikaneder's libretto staged by Neil Bartiett and Leab Hausman with a company of 18 singers, comedians and musicians." Nowbere in the programme is there a mention of Mozart except to note the delirium of his death.

The trouble is that *Zauberflöte*—and the best produtions have always made this plain—is a pantomime anyway. It is wilful to try to popularise it further; and bizarre to have a female Tamino and a male Papagena—in deference, presumably, to our traditional ideas of Principal Boy and Dame.

Visually, turex and glitter have been applied with a festive and liberal hand. Robin Whitemore's designs combine tinselly jollity with bold primary colours in a vaguely South American style — though the motif of dragon and winged demon could equally be, say, Javanese. The Three Ladies (who double as the Boys) even spangle their matronly black numbers, veiled hats and all, with the odd sparkle. The men of Sarastro's court change their evening dress for the glitzy white and gold suits of a *Chorus Line* finale.

The production is based on Schikaneder's original, plus additions from others including a certain Metzler, sometime Professor of Mineralogy at Trinity, Dublin. (I suspect he was thought up by Tom Stoppard.) Ultimately, the main interest lies in hileriously greeting the Three Ladies wbo, with Elaine Loudon, radical cabaret singer, in their midst, give splendid displays of the vocal equivalent of coarse acting — intonation to pot, wrong entries and caterwauling lone mucb in evidence.

The six-piece band under the direction of Nicholas Bloomfield on various keyboards (electronic for "Isis and Osiris" whicb takes on a curiously revivalist Christian air) produces some wild hloomers. Particularly among the strings. Particularly in "Acb, ich fühls." The set-piece arias are sung in German. Some of the ensembles use botb langueges in alternating lines — "Here too I hear zurück!" exclaims a justifiably bewildered Tamino, rebuffed at the temple gates.

Among the singers, Gaynor Miles has an interesting shot et the Queen of the Night: a slinky brunette in a belted raincoat. The voice is bright and forward with a fast vibrato that adds intensity to her attack. Simon Dormandy is a stalwart from such fringe companies as Cheek hy Jowl, and was notahle in the Traverse production of *Losing Venice* last summer in Edinburgh. Ironically, the non-singer gives a more consistent vocal performance than some of his trained cotieagues. This bespectacled nird-catcher tooks like a cross between Woody Allen end Bamber Gascoigne. The Saraatro is inadequate.

Ingeniously nifty swivelling panels on a specially erected (and tiny) stege in the ICA make this a handsome if sometimes noisy production. Frankly I am not sure who I would recommend thla to. Not joyous eonugh for ponto, not musical enough for the real thing, not rethought enough for the avant gerde—or the Brook/Carmen public, say. Immense effort hes gone into it, but the music is almost drowned by tbe thud of good lntentions falling between all possible stool.

## Obituary/Robert Graves

**Anthony Curtis**

Robert Graves, who died at the age of 90 on Saturday, was one of the greot one-man hands of Engtisb literature. Poet, novelist, historian, scholar, translator, social critic—he assumed all these roles with untiring energy and a distinction born of his capacious mind and his fine power over the English language.

Grares wrote always like an angel, but an anget who was the sworn enemy of the receiveo wisdom in any field of human endeavour. He was educated ot Charterhouse from where he won a classical scholarship to St John's College, Oxford. He left before taking a degree to serve wilb the Royal Welch Fusiliers and participate in the Firat World War. He fought in the hattle of Loos. This was an experience he described in the book with which he made his name, *Goodbye to All That* (1929), his permanent contribution to the literature of war.

Although Graves held no official position at Oxford until his election as Professor of Poetry there in 1961, his sway over his contemporaries was marked. The novelist Richard Hugbes used to say that as an undergraduate the two people who had the greatest influence on him were Graves and T. E. Lawrence; both combined e reverence for the military life with classical scholarship and intellectual penotration.

Graves survived tbe war and in 1918 married Nancy Nicholson, who bore him four children. The isolated position hc had acquired ln the world of latters waa underlined by his attacks on the Georgian poets and his residence abroad, first in Egypt and then in Majorca, where he went with the American poet Laura Riding after the collapse of his marriage. Graves now began to emerge as a lyric poet whose celebrations of sexual love had an Elizabethan huoyoncy and vigour.

He returned to Majorca after World War II and married again. His income now depended on a series of novels and other prose books, of which the most celebrated was the two rolume hislorical fiction *I Claudius*, which was adapted for telerision and most recently for radio. Earlier there had heen a projecled film with Charles Laughton.

The onset of old age only served to increase Grares's appetite for work and relish for intellectual controversy. Fields of leernings which keep teams of scholars busy for a lifetime on both sides of the Atlantic, Grares would invade and atiempt to occupy. These pitched battles certainly added to the gaicty of the letters page of *The Times Literory Supplement* and also produced some stimulating books. Best was *The White Goddess*, in which Graves attempted to reconstruct the matriarchal society of pre-Hellenic times and thus paved the way intellectually for the post-war feminist movement.

Gravea was one of those salutory individuals who take great pains to poiot out that erergthing is not what it seems. When he was awarOed the Gold Medal of the National Poetry Society of America he took it to the goldsmiths of Majorca who examined it carefully and confirmed that it was not, in fact, made of gold. Graves's peculiar combination of anarchism and eloquence will be much missed.

## A Prayer for Wings/Bush

**Michael Coveney**

It is not every night of the week that you bump into royalty at a fringe theatre, but the Prince and Princess Michael of Kent were in the Shepherd's Bush dark room on Friday night to welcome Sean Mathies's Edinburgh Festival fringa hit to London. Time was when people went to theatres to tremble at the fate of royalty. Here was royalty peeping in on the fate of a multiple sclerosls victim in South Woles gobbling up tea and toast provided by her sluttishly resentful daughter.

Edinburgh reports, including Martin Hoyle's on this page, served notice of Patti Love's fine performanre as tba crafty hed-bound Mam whose past life of deprivation, failed marrioge and illness have confined Rita to a role of filial servitude. Rita heaves Mam and her useless legs into a wheetchair. Miss Love's hands reach slowly for the latest morsel from the Post Office. Total paralysis is not far off.

Meanwhile Rita (an equally strong performance by Anne Mannion) tells of touching up boys for money and dreams of wealth and a family like some displaced inhabitant of Dylan Thomas's Llareggub. The play suffers from en overati slackness and some ghastly camp one-linera (Mam's maiden name was "Dyke" which is why sbe wanted to keep her married one after the husband disappeared) and is best when the contrapuntal soliloquies of yearning escapism ere allowed to flow.

There ere marked similarities here, in fact, with Mr Mathias's notoriously bad first play, *Cowardice*, in which an incestuously interdependent brother and sister played out a showbiz fantasy in the suburbs. "Rise above it" was Noël Coward's motto in all fixes; Mr Mathias, interestingly, could become a playwright of environmental transcendence.

At the moment he is still technically sticky and an awkward engineer of dramatic momentum, problems unsolved by tha direction of the author and Joan Plowright. The prattling tiffs are too repetitive, their triviality insufficently moulded into compelling language. But in presenting two equally trapped figures, one a cripple, tbe other her nurse and daughter, and in making of this a passable, if unsophisticated, comedy, Mr Mathias has done much.

The intruder in *Cowardice* was a Shakespearian bore with a passport to recognition: the trio is completed bere hy Kerin Allen as a succession of local lads picked up by Rita and serviced for a few bob while Mam groons critically next door. He finally appears as a real prospect, "an angel from Port Talbot" who has mored into the terrace unaware of her soiled reputation.

Best of all is the salacious blasphemy of ell this cruel disintegration and sneaky sex taking place in a disused church, the couple's curious habitat, superbly designed by Geoff Rose as a stumpy, cream end cobwebbed chapel complete with steined glass window and a heavily carved choir screen.

## Laurence Olivier Awards

Having secured over 30 nominations between them, it was once again the National Theatre and the Royal Shakespeare Company which benefited most in the Laurence Olivier Awarda ceremony conducted by the Society of West End Theatre at the Dominion Theatre in London last night.

The National scooped seren prizes: Ayckbourn's *Chorus of Disapproval* wes Comedy of the Year; Yronne Brycetand, Best Actress in *The Road to Mecca*; Michaet Gambon, Best Comedy Actor in the Ayckbourn; Bill Bryden, Best Director for *The Mysteries*. William Dudley, Best Designer for *The Critic* and *The Mysteries*. Imelda Staunton the Supporting Actress of the Year. Anthony Hopkins won the Observer Award for his performance in *Prarda*.

Play of the Year was Peter Barnes's *Red Noses* at the RSC and Antony Sher was Actor of the Year for bolh his RSC *Richard* and *Torch Song Trilogy*. *Les Misérables* was overshedowed by *Me and My Girl* which wos Musical of the Year and won for Robert Lindsay the Best Actor in a Musical award.

Patti Lupone won Actress in a Musical award for both *Les Misérables* and *The Cradle Will Rock*. The English Tourist Board's Most Promising Newcomer was adjudged to be the Cheek By Jowl touring company and there were awards for Kathleen Battle in *Ariadne Auf Naxos* at Covent Garden and for Yoko Morishita in the Tokyo Ballet's *Giselle*. The dance and opera production awards went to Merce Cunningham for *Pictures* and the ENO for *Xerxes*.

*

Prize money totalling £23,000 hos been awarded in the first playwrights' competition sponsored by Mobil Oil snd adjudicated by playwrights Alan Bennett and Willy Russell, producer Michael Codron, Joan Plowright and James Maxwell of the Royal Exchange, Manchester, under the chairmanship of Melvyn Bragg.

Joint winners, each receiving £7,500, were Robin Glendinning for his first stoge play, *Mumbo-Jumbo*, and Tony Perrin, (who scripted many episodes of *Coronation Street* end has had plays produced at the Victoria Theatre, Stoke) for *War Pictures*. Third prize of £3,000 went to Jeff Noon for *Woundings*, another first play. The £3,000 Michael Elliott prize —in memory of the Royal Exchange's founding director—went to Nigel Baldwin for *Insolent Confessions*.

## Saleroom

An exhibition commemorating the taste of Thomes Howerd, 2nd Earl of Arundel, perhaps the first great English collector, is currently on view et the Ashmolean Museum in Oxford. By chance you can buy at Christie's tomorrow some of the Arundel Marbles, classical sculpture which the Earl was shipping to England from Greece aod Turkey as early as 1618.

Many of the marhles disappeared for centuries, to be rediscorered by Denys Hayes of the British Museum. They are being sold hy the Marian Fathers of Fawley Court at Henley end Lord Burnham of Beaconsfield, and constitute the most important antiquities to be auctioned since the Castle Ashby vases of 1980, which realised £1.3m.

The prize lot is a marble relief slab of the Fallen Giant from the frieze of the great altar of Zeus et Pergamon, which could make anything up to £250,000; but other fragments, of limbs, could go for under £1,000.

**Antony Thorncroft**

# Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guida to all the Arts appears each Friday.

Dec 6–12

### Music

**BRUSSELS**

**Palais des Beaux Arts** (512 40 45): piano recital by Ivo Pogorelich (Wed); Belgian National Orchestra, conducted by Antal Dorati, with Lise von Alpenheim, piano. Haydn, Mozart, Brahms (Thur).

**Conservatoire de Bruxelles** (512 40 45): Lieder recital by Barbara Hendricks, soprano; with Ralph Gothoni (Thur).

**LONDON**

**Royal Philharmonic Orchestra**, conducted by Antal Dorati, with Vladimir Ashkenazy, piano. Beethoven. Royal Festival Hall (Mon). (928 3191).

**Vienna Chamber Orchestra**, directed by Philippe Entremont, piano. Mozart. Queen Elizabeth Hall (Tue). (928 3191).

**London Philharmonic Orchestra**, conducted by Simon Rattle, with Kyung Wha Chung, violin. Mussorgsky, Rimsky Korsakov, Berg, Rachmaninov. Royal Festival Hall (Tue).

**BBC Symphony Orchestra**, conducted by Mark Elder, with John Lill, piano. George Benjamin, Bartók, David Matthews, Ives. Royal Festival Hall (Wed).

**Berio 60th Birthday Concert**: London Sinfonietta and Voices, conducted by Luciano Berio, with Carlo Chiarappa, violin; and Aldo Bennici, viola. Berio, including first British performance of Requies. Queen Elizabeth Hall (Thur).

**London Mozart Players**, conducted by Jane Glover. Mozart and Walton. Queen Elizabeth Hall (Wed).

**Philharmonia Orchestra and Chorus** and the choir of St John's College, Cambridge, conducted by Stephen Cleobury. Christmas programme. Royal Festival Hall (Thur).

**PARIS**

**Alicia Nafe recital** (Mon). Théâtre de l'Athénée (47426727). Bruno-Leonardo Gelber recital (Mon). Théâtre des Champs-Elysées (47234777)

**Teresa Zylis Gara**, soprano; Christian Ivaldi, piano. Chopin. (Mon) TMP-Châtelet (42334444).

**Ensemble Orchestral de Paris**, conducted by Jean-Pierre Wallez; Jose Sequeira-Costa, piano. Haydn, Beethoven (Tue). Salle Pleyel (45610630)

**Orchestre de Paris**, conducted by Daniel Barenboim; Vladimir Ashkenazy, piano; Berlioz, Boulez, Beethoven (Wed, Thur). Salle Pleyel (45619607).

**SPAIN**

**Barcelona**: William Fong, piano. Beethoven, Chopin, Granados, Brahms, Ravel. Caixa de Pension. Passeig de Sant Joan, 108. (Tue).

**Madrid**, Wind instruments, conducted by Franz Cramer. Berg, Schubert and Mozart. La Union y el Fenix, paseo de la Castellana 33. (41 965 59) (Wed).

**VIENNA**

**Vienna Symphony Orchestra**, conducted by Semyon Bychkov; with Andrea Lucchesini, piano. Chopin, Shostakovitch. Konzerthaus (72 12 11). (Mon).

**Artis-Quartet**. Beethoven, Webern, Schubert, Brahms. Schubert Saal, Konzerthaus (Tue).

**Ensemble Maurice Ravel** and string orchestra of the French Music Institute. Maray, Bartók, Meriet. Palais Clam Gallas. (Wed).

**Vienna Symphony Orchestra**, conducted by Christoph Eschenbach, with a Mira Zakai, mezzosoprano. Blacher, Mahler. Musikverein. (Thur).

**NETHERLANDS**

**Amsterdam**, Concertgebouw. The Messiah performed by the Netherlands Händel Society and the Netherlands Philharmonic, conducted by Jac Loorij (Tue); Bernard Haitink conducting the Concertgebouw Orchestra; with Murray Perahia, piano: Vaughan Williams, Beethoven, Tchaikovsky (Wed, Thur). Recital Hall: The Schönberg Ensemble, conducted by Reinbert de Leeuw, with Jard van Nes, contralto. Berg (Thur). (71 83 45).

**Utrecht**, Muziekcentrum Vredenburg. Serge Raggiani, chansons (Wed); Chopin piano recital by Andrei Gavrilov (Thur). Recital Hall: Orlando Quartet. Haydn, Beethoven, Debussy (Tue). The Schönberg Ensemble, conducted by Reinbert de Leeuw, with Jard van Nes, contralto. Berg (Wed); Mouloudji, chansons (Thur). (31 45 44).

**Rotterdam**, De Doelen. The Rotterdam Philharmonic under James Conlon, with David Golub, piano. Mozart (Tue, Wed, Thur). (14 29 11)

**Maastricht**, Schouwburg. Piano recital by Eliane Rodrigues (Tue). (21 33 00).

**NEW YORK**

**New York Philharmonic** (Avery Fisher Hall): Leonard Bernstein conducting: Harris, Schuman, Copland (Tue); Charles Dutoit conducting Glenn Dicterow, violin; Copland, Barber, Mussorgsky-Ravel (Thur). Lincoln Center (874 2424).

**King's Singers** (Alice Tully): International Christmas music of the Renaissance, with works by Janacek, Menotti, Richard Manners (Thur). Lincoln Center (362 1911)

**Carnegie Hall**: Cleveland Orchestra, Christoph von Dohnanyi conducting; with Alicia de Larrocha, piano: Zemlinsky, Mozart, Stravinsky (Wed). (247 7459).

**Kaufmann Hall**: Gary Schocker flute recital with Anthony Newman, piano: Telemann, Copland, Poulenc, Bach, Berio, Prokofiev (Tue). 1395 Lexington Av (831 8603).

**CHICAGO**

**Chicago Symphony** (Orchestra Hall): Erich Leinsdorf conducting: Roussel, Schuller, Franck (Thur). (435 8122)

**TOKYO**

**Mozart Orchestra of Salzburg**, conductor Hans Graf: piano, Eric Heidsieck. Tokyo Bunka Kaikan. (Mon) (496 0959)

**Thomanerchor and Gewandhaus Orchester of Leipzig**, Schütz, Händel, Bach, Mendelssohn, Schubert. St Mary's Cathedral. (Mon) (242 7711).

**Harumi Kuyama** (piano): Bach, Beethoven, Mozart, Français. Ino Hall, near Hibiya, Ginza (Wed) (571 1889).

**Deutsche Streichersolisten of Berlin**: Pachelbel, Mozart, Mendelssohn, Wolf, Bartók. Showa Women's College, Hitomi Memorial Hall (Wed) (440 5541).

**Koto**: Traditional Japanese music and dance. Theatre Apple, Shinjuku (Mon-Thur) (207 5386).

FINANCIAL TIMES

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Monday December 9 1985

# A surfeit of takeovers

THREE THINGS can be said with some confidence about the gale of takeovers sweeping through the London stock market. Like its predecessors, it will blow itself out in due course. It will damage some companies and benefit others. Government intervention to halt the process is likely to create more problems than it solves, except where it is aimed at clearly defined objectives, of which the maintenance of competition is the most important; the curbing of imprudent lending may be another.

What lessons can be drawn from past takeover waves? Many large acquisitions have not yielded the expected gains, usually because the purchaser under-estimated the task of integrating the two businesses. Empire-building conglomerates tend to over-reach themselves in the end, as they need to make ever larger purchases to maintain the momentum of growth; the troubles of ITT, now busily selling off acquisitions made in the 1960s and 1970s, should be a warning to the likes of Hanson Trust and BTR. It is also worth noting that takeover activity plays a very small role in the two most successful post-war economics, West Germany and Japan.

Yet takeovers can have the effect of putting badly-managed assets to better use; the threat of a hostile bid can be a powerful stimulus to greater efficiency. While the bid fever in London and New York is unhealthy and there is justifiable concern about some of the short-term manoeuvres designed to ward off predators, it has not been firmly established that a high level of takeover activity deters companies from spending money on research or other long-term projects, or that companies which do invest for the long term are less highly rated by the stock market as a result.

The predator looking for poorly-managed companies has a valuable role to play. The Government should be more concerned about the financial conditions which have brought about the takeover boom than with tightening the merger rules in a way that might discourage hostile bids.

It is sometimes argued, on both sides of the Atlantic, that the scales are weighted too much in the predator's favour. In the US this reflects weaknesses in the takeover rules which, among other things, do not give investors adequate time to consider the bid. In the UK the recent change in mergers policy, putting more stress on competition, may have given a fillip to conglomerate mergers which are now less likely to be referred to the Monopolies Commission. It is still possible, nevertheless, for a target company, even one with a less than outstanding record, to fight off an aggressor, as Powell Duffryn did when pursued by Hanson Trust.

A more important change has been the availability of finance to enable smaller companies to tilt at very much larger ones. In one sense this is good, since it puts pressure on the big, sleepy company which in the past has been comfortable in the knowledge that only very few fellow giants could contemplate a bid. The danger lies in the financing techniques used and, in particular, the excessive reliance on debt. Interestingly, the Federal Reserve in the US has just moved to tighten the rules on "junk bonds," widely used to finance bids. The similar issues raised by Elders IXL's leveraged bid for Allied Lyons seem more appropriate for the banking authorities than for the Monopolies Commission to which the bid was referred last week.

### *Temptation*

Some American observers believe excessive takeover activity is a direct cause of declining US industrial competitiveness; others see the takeover market as "a unique, powerful and impersonal mechanism to accomplish the redeployment of assets continually required by changes in technology and consumer preferences." Perhaps the truth lies somewhere in between. Take-overs are a useful part of the market system, but they can be overdone. As a cure for sick companies, they are often less effective than a change in top management, engineered by non-executive directors or outside shareholders. As a strategy for expansion, they can be less rewarding in the long run than internally generated growth. Non-executive directors and investors need to be highly sceptical about claims for what a takeover will achieve. Equally, Ministers should resist the temptation to substitute their own judgment for that of the market place.

# Uganda's need for outside help

THE WAR in Uganda appears to be approaching a critical stage, with the rebel National Resistance Army (NRA) launching an attack on the besieged regular army garrisons in the towns of Masaka and Mbarara. If successful, this could be followed by a drive for the capital itself, Kampala.

As yet another chapter in Uganda's bloody story unfolds, it becomes all the more pressing that the international community should consider what it can do to help resolve a conflict in which ethnic divisions, historical antipathies and rapacious army officers are tearing a country apart. Uniquely qualified to play a leading role is the Commonwealth, of which Uganda is a member, and which has experience in past disputes on the continent.

Should the surrender of the garrisons mark the emergence of a single authoritative force in the country and the end of the war, it might prove to be a step in the right direction. The NRA, led by Mr Yoweri Museveni, has won a reputation as a comparatively disciplined force which has promised to put its support to the test of the ballot box. But there are several armed factions in the country, all dependent to varying degrees on ethnic rather than national support.

### *Elections*

The deep and often bitter divisions represented by these forces are unlikely to be resolved by the outcome of a single battle, however important.

The current talks in the Kenyan capital Nairobi, taking place under the auspices of President Daniel arap Moi's Government, have dragged on for three months, deadlocked over the composition of a transitional cabinet, the allocation of portfolios in a coalition government, and NRA demands that those responsible for army brutality against civilians over the past years be brought to jusctice.

An NRA success on the military field may well encourage the insurgents to hold out for a greater say in the transitional administration. But even if the Nairobi talks succeed, Uganda will surely need outside help in moving towards the elections that all parties claim to support.

Perhaps not surprisingly, no outsider appears ready to volunteer. Tanzania embarked on a costly military exercise to overthrow Idi Amin in 1979 and is unlikely to be prepared to play any major part again.

The body to which Uganda should naturally turn, the Organisation of African Unity, has proved so ineffectual in other African conflicts that it appears ruled out as a suitable arbitrator in the peace process.

There are two African precedents, however, for a Commonwealth role in an African dispute. In Zimbabwe in 1979 the British-dominated monitoring force (which included Commonwealth contingents) oversaw the grouping of rival guerrilla armies into assembly places, and Commonwealth observers monitored the election which brought about Zimbabwe's independence.

In Uganda itself their role proved more contentious. In December 1980 Commonwealth observers concluded that the elections which brought Milton Obote back to power were free and fair, despite charges of serious irregularities. Nevertheless, there is valuable experience to draw on. It was unfortunate that at the Commonwealth conference in Nassau last October the heads of state were so preoccupied with South Africa that no time was found for Uganda, where hundreds of thousands of lives have been lost.

The effort is worth making, humanitarian issues aside. Uganda is rich in natural resources, with enormous agricultural potential. The first two years of Mr Obote's second term in office, when he undertook far-reaching reforms with the backing of the International Monetary Fund and the World Bank, produced evidence that the country's potential could be realised.

What form Commonwealth assistance should take will depend in part on what Uganda's leaders are prepared to accept. Given the country's violent record over the past 15 years no one will underestimate the challenge. Nevertheless it may be time for the Commonwealth to consider how it can once again play a constructive part in resolving a conflict which involves one of its members.

THE £1.9bn BID FOR IMPERIAL

# What made Hanson pounce

By Martin Dickson and Richard Lambert

ON Wednesday morning of last week the subject of acquisitions came up routinely at Hanson Trust's quarterly board meeting. The message was that apart from the continuing struggle to buy SCM in the US, the company saw nothing new on the horizon.

By 7 pm the following night, Lord Hanson had put together Britain's biggest takeover bid—a £1.9bn offer for Imperial Group, the tobacco, brewing and food group. The offer was made public on Friday night, bringing to a climax the most remarkable week ever in British take-over history, with bids valued at over £6bn launched for four major companies.

Hanson had been toying with the idea of an approach to Imperial for two years, but what spurred it into action was last Monday's news of a planned merger between Imperial and United Biscuits. With this announcement "Imperial put up the 'for sale' sign," Lord Hanson claims.

But for the first part of last week Lord Hanson and his partner, Sir Gordon White—the man responsible for building up Hanson Trust's substantial US operations—seem to have had other things on their mind.

Although Lord Hanson has never shown the slightest sign of wanting to become a newspaper proprietor, he was approached along with a number of other leading businessmen, with a view to putting together a rescue package for the troubled Telegraph group of newspapers.

A meeting was called on Thursday afternoon at N. M. Rothschild, the merchant bank which acts for both Hanson and the Telegraph, to discuss the fate of the newspaper. A Telegraph deal was quickly ruled out and the talk turned to bigger things.

Imperial immediately rejected the resulting Hanson offer and there is every sign that the coming battle will be hotly contested. Nevertheless, Mr Geoffrey Kent, Imperial's chairman, and Lord Hanson have known each other for 20 years and appear to have a strong mutual admiration.

Mr Kent says that he informally asked Lord Hanson to join Imperial's board two years ago—"because I think he's a good businessman." Lord Hanson said he was too busy, but was interested in talking about the possibility of a closer link between the two companies. When Mr Kent flatly rejected the idea, Lord Hanson was willing to back off.

Since then, however, the two men have seen each other regularly. They sit side by side at the board table of Lloyds Bank — something which has caused wry comment from their fellow directors during the periodic waves of merger speculation about their two companies.

Mr Kent has been chairman of Imperial for four years and has brought about a major improvement in the company's previous lacklustre performance.

Aged 63, he is a man with craggy good looks, a deceptively diffident public manner and a busky voice which sounds as if it has been kippered by cigarette smoke.

He took over in traumatic circumstances: A boardroom coup in July 1981 led to the abrupt departure of his predecessor, Mr Malcolm Anson, after just a year in office, amid slumping profits and dissatisfaction over Mr Anson's decentralised style of management.

Mr Kent, who came to the chairmanship promising "hands on management from the centre," began turning the sprawling and somewhat aimless corporate empire into a much tighter, more disciplined group. Imperial was divided up into 24 "strategic business units," which now form the reporting structure for top management, with performance against budget monitored closely by a computer programme developed in-house.

The impact was felt across the group's three UK divisions: tobacco, incorporating John Player and W.D and H.O. Wills, which is still the mainstay of the group, accounting for about 50 per cent of operating profits; foods, which include Ross, the frozen food group, Young's Seafoods, Golden Wonder, the crisp manufacturer, and HP, the sauce business; and brewing and leisure which includes brewers Courage and John Smith, together with Anchor hotels, Happy Eater restaurants and numerous retail outlets.

In the tobacco division, for example, there has been intensive capacity rationalisation and a high rate of brand turnover, with particular emphasis on new lines in the fast-growing longer-than-kingsize area. This has helped Imperial hold on to its UK market leadership (it now accounts for about 40 per cent of total sales) against strong competition from Gallagher. However, the group's need to diversify away from tobacco is underscored by the substantial inroads which generic and own-label brands have been making against the major manufacturers, and the fact that the overall UK market is in steady decline.

## The signal that Imperial was 'for sale'

Tighter management controls have been coupled with a weeding out of poorly performing businesses, particularly in the foods division, where Imps sold its poultry, egg, meat and animal feeds operations in 1982 at a net loss of £54m. Many of those interests went to Hillsdown Holdings, a recent stock market favourite, which turned them round with a success that stands in stark contrast to Imperial's failure.

The net effect of Mr Kent's exertions has been a doubling of Imperial's pre-tax profits from £106m in 1981 to £220m in 1984. In the year to last October, however, the group is estimated to have made little more than £230m, held back by strikes in the UK and by the dismal performance of its recent millstone—the Howard Johnson (HoJo) hotel and restaurant business in the US.

HoJo, bought in 1980 for $630m, ranks among the most disastrous acquisitions ever made by a British company. It was controversial from the start, with many of Imps institutional shareholders questioning the company's judgment in paying nearly twice the hotel chain's previous stock market value. They were soon to be vindicated. HoJo's Orange Roof restaurant chain, for years starved of investment and out of touch with the market, proved to be a black hole into which Imperial poured cash but out of which it never generated financial success, while HoJo's overall profits performance deteriorated steadily.

In September of last year, Mr Kent finally bit the bullet and put HoJo up for sale. However, a successful disposal would make Imperial overwhelmingly dependent on the UK (and a much more tempting bid target itself). The company set about looking for a major new acquisition of its own and ran over 1,200 companies through its computers in search of the right match.

By April it had homed in on United Biscuits—"this is not a last-minute defensive move," insists Mr Kent—though it did not approach the company until this autumn, when Imperial finally reached an agreement to sell HoJo to Marriott, the US hotel chain, for $314m.

The resulting merger proposal has not been particularly well received in the City, where it is widely seen as a defensive pact.

However, the two companies insist there is a strong industrial logic. Both have major interests in food snacks, restaurant chains and frozen foods and see large benefits from combining their national distribution systems and food research and development effort.

For Imperial, a merger would cut its dependence on tobacco profits to one-third and give it an international leg through United's extensive US interests. For United, a deal would mean access to Imperial's strong cash flow, from tobacco, to fund its expansion as an international force.

Why does Hanson want Imperial? Superficially it is unlike the company's other UK takeovers—purchases like Berec in batteries, UDS in retailing, or London Brick, all of which were substantially reshaped after coming into the Hanson net in order to improve the returns on their mainstream assets.

Imperial, by contrast, has already taken many of the painful steps necessary to prune its portfolio of businesses.

Hanson says there are no plans to get rid of any of Imperial's activities after the takeover and the assets will not be purchased at a knock-down price. The offer values them at roughly twice their book net worth.

Yet in other respects, the bid fits comfortably into a long established pattern of Hanson takeovers. Tobacco, brewing and food are low tech, low risk businesses, characterised by products that have a long life cycle and generate a great deal of cash. Like bricks or batteries, they are activities which offer little or no scope for long-term growth in volume, but they can rely on a solid underlying level of demand. Imperial also has some very valuable intangible assets, in the shape of its brand names.

"Whatever you feel about smoking and drinking, they are going to go on—and they've got a very good cash flow," Lord Hanson says. The plan will be to plough this money back into the business to improve efficiency and develop market share.

What may seem extraordinary is that Hanson has shown itself willing to conduct two very large contested takeovers on two fronts at the same time. In late August, it launched an attack on SCM Corporation, but its $930m offer for this New York-based maker of typewriters, chemicals and coatings has been snarled up in the law courts for weeks. Hanson lost a key round in the legal battle at the end of last month, yet is hopeful that the appeal which is now getting under way will go in its favour.

The outcome may be known by Christmas, and Hanson says that if it gets the go-ahead, it will definitely move ahead with an offer.

This ambition is made possible by the way that the company has developed two separate structures in the UK and the US, with two effectively autonomous headquarters in London and New Jersey. While Lord Hanson is tackling Imperial, SCM is the responsibility of Sir Gordon White. The American acquisition, if it goes ahead, will be financed entirely in the US on terms and conditions that will not be affected by the offer for Imperial.

Moreover there is an argument that Hanson actually requires an acquisition on the Imperial scale in order to maintain its heady growth rate and high rate of return on shareholders' funds. It launched a jumbo £519m rights issue in the summer—an offer which its shareholders did not receive with great enthusiasm—and it has to find ways of making these new funds earn their keep.

Last Thursday, Hanson announced that its profits in the latest 12-month period had climbed by nearly 50 per cent to £252.8m pre-tax. But commenting on the figures in the Financial Times, the Lex Column suggested: "Hanson Trust would not just like to make an acquisition in the UK: it quite simply needs one."

The broad lines of the coming battle are already clear. Hanson argues that the Imps/United merger is not a good deal for Imperial's shareholders, who face a significant earnings dilution, and that Hanson's 250p a share offer compares favourably with the 200p which it says is implied for Imperial in the United merger terms.

## A reminder that Hanson needs an acquisition

Certainly, some City commentators have characterised the merger as more akin to a reverse takeover of Imperial—a comment which has infuriated Mr Kent, who says Imps is simply paying a premium to acquire a good business.

A merger with United would, he says, add "tens of millions of pounds" to the bottom line over the next three to four years. "There's no way," he says, "that we can see that Hanson can make that kind of improvement."

However, money on the table—be it that of Hanson Trust or another predator, perhaps from the US—may talk more loudly to shareholders than long-term industrial logic.

Geoffrey Kent (left) and Lord Hanson (right) and, in the middle, Sir Hector Laing, chairman of United Biscuits

## HOW THE THREE COMPANIES COMPARE

| IMPERIAL | UNITED BISCUITS | HANSON TRUST |
|---|---|---|
| Turnover £4.66bn (to 3.10.84) | Turnover £1.74bn (to 29.12.84) | Turnover £2.67bn (to 30.9.85) |
| Pre-tax profits £220.6m | Pre-tax profits £87.2m | Pre-tax profits £252.8m |
| Employees 92,000 | Employees 41,000 | Employees 67,000 |
| Major interests: TOBACCO AND CONFECTIONERY: Players and Embassy cigarettes, Golden Virginia and St Bruno tobaccos, Famous Names liqueurs. FOODS: Ross frozen foods, Young's Seafoods, Golden Wonder crisps, HP and Daddies sauces. BREWING: Courage beers and pubs, John Smith's beers, Harp lager. RESTAURANTS, HOTELS, SHOPS: Anchor Hotels, Harvester Steak Houses, Happy Eater restaurants, Finlays newsagents. | Major interests: BISCUITS AND CONFECTIONERY: McVities, Ry-king, Crawford's Macfarlanes, Macdonalds, Carr's biscuits, Terry's chocolates. SNACK FOODS: KP nuts and snacks, own label crisps. FROZEN FOODS: McVities products. RESTAURANTS: Pizzaland and Wimpy chains. US: Keebler cookies and crackers. Speciality Brand spices and herbs, Early California Olives. | Major interests: UK RETAILING: Allders (formerly UDS): department stores, duty free shops, shoe shops. UK MANUFACTURING: Batteries (Ever Ready), bricks (London Brick Butterley Building Materials), engineering (automotive equipment, meters, brewing equipment, industrial rubber control equipment). US INTERESTS: Fabric and yarn manufacturing, footwear manufacturing, food products, building products, furniture, lighting, miscellaneous industrial products. |

# Men and Matters

## Culture change at ICL

Talk to Robb Wilmot and you get "a tour of the gardens of high technology," I was told. Talk to Peter Bonfield and you get "a thorough inspection of the kitchen."

It is these complementary skills and strengths that have made the workaholic architects of ICL's restoration over the past four years such an effective team.

The two men have worked together on and off ever since they both got their first jobs with Texas Instruments in the same week of 1966. And though Wilmot is now leaving the chair at ICL to do his own thing, Bonfield says they will no doubt continue to share their thoughts on the future of the industry over an occasional weekend pint. (Bonfield rows down the Thames from his home to the local pub.)

With Wilmot's departure, Bonfield, 41, takes on the dual role of chairman and managing director. There will be no violent changes of strategy, he says in his down-to-earth way.

From his vantage point, ICL already looks a far different place from the one he entered in 1981 as marketing director. There have been changes in technology. A new range of mainframe computers in collaboration with Fujitsu is "going very well."

But Bonfield believes the biggest change has been in ICL's management culture. "We have built a brand new management team," he says, "young, enthusiastic, and international in outlook. Many have come from a hard, multinational school.

"We have got a lot more managers working in smaller units much closer to the market place and we have pushed decision-making down the line."

More than a thousand managers—starting with every member of the board—have been put through marketing courses. "We have now," says Bonfield, "a very different style."

Bonfield himself feels his career has come full circle. "In a way, I grew up with ICL. My father worked for the company for 48 years. He advised me to get international experience and that was why I joined TI, but I feel now as if I've come home."

## Howard's way

Over the past fortnight, Michael Howard has made a series of almost daily speeches about the forthcoming Financial Services Bill. Yet his name was virtually unknown in the City when in September, after little more than two years in the Commons, he was brought into the Government as Under-Secretary for Corporate and Consumer Affairs.

Mrs Thatcher's promotion of Howard, 44, surprised nobody at Westminster. The only question there had been how long it would take him to catch up with his contemporaries from the successful Cambridge / Bow Group generation of the early 1960s (including Leon Brittan, Norman Fowler, Kenneth Clarke, Norman Lamont—with whom he once shared a flat—and John Gummer).

After election defeats in 1966 and 1970, Howard concentrated on his career at the bar. He specialised in planning and employment cases and became a QC in 1982.

He was elected for Folkestone and Hythe in 1983 and, able and articulate, immediately stood out from the rest of the Tory intake.

Howard's new post is unusually demanding—covering not only financial services but also competition policy and detailed consumer issues like product safety. He has already made a favourable impression in the Commons by his skilful handling of the row over a leak of infromation about the official attitude to the Scottish and Newcastle bid for Matthew Brown.

His main test, of course, will come with the Financial Services Bill. After a recent visit to the US he has been reinforced in his belief in statutorily-backed self-regulation but he faces growing Tory backbench pressure for stronger controls and, particularly, the inclusion in the Bill of Lloyd's (of which his underwriting membership is now in suspension!).

The legislation will require all his QC's skills, not least since Labour's team will be headed by an equally clever lawyer, Bryan Gould.



"It's not leaking water that worries me—it's the tunnel being flooded with Beaujolais Nouveau every November"

## BIM's choice

Brian Wolfson's words rattle over the phone like a burst from a machine gun. "People in commerce and industry," he says, "have a duty to show how proud they are of it, how exciting it is, and what fun it can be."

Wolfson, 50, who seems to have run his own business career with the same sustained pace that made him a national schoolboy 400m champion, is to take over from Sir Peter Parker next year as chairman of the British Institute of Management.

The BIM could scarcely have found a better advert, as well as advocate, for the commercial life. A Liverpudlian, Wolfson quit university in the 1950s to try to save the family engineering business. He failed, but had begun to build several new enterprises when Granada offered him a job.

Within six years, he was joint managing director of the group. Three years later, still only 35, he left to go it alone. In the 15 years since, in an exercise that earned him the title of "most travelled jet lagger" from an American magazine, Wolfson has created the Anglo Nordic group with diverse operations in five continents.

He has happily intermingled some personal and business interests. He is fascinated by archaeology — and associated with a leading antiquities dealer. He is a passionate supporter of Liverpool football club—"but always had this problem getting tickets for Wembley"—so heads the consortium which last month bought the stadium.

Wolfson is likely to be back in the takeover headlines again shortly. But at the weekend, he was clearly just as excited by the fact that two girls, finalists in the national management game for schools which he initiated for the BIM, were opting for a career in industry.

"I have this passionate belief," he adds, "that unless we can expose the young to the sheer fun of industry, unless we can get it right in the classroom, it's much harder afterwards.

"But it is an on-going process. More training and retraining is needed at work. The more skills that people gain, the more motivated they become."

## Cottoned on

Seen in Yorkshire shop window: "Wear British wool—34 million sheep can't be wrong."

**Observer**

## BASE LENDING RATES

| | | | |
|---|---|---|---|
| Allied Dunbar & Co. | 11½% | ■ Guinness Mahon | 11½% |
| Allied Irish Bank | 11½% | ■ Hambros Bank | 11½% |
| American Express Bk. | 11½% | Heritable & Gen. Trust | 11½% |
| ABN Bank | 11½% | ■ Hill Samuel | §11½% |
| Amro Bank | 11½% | C. Hoare & Co. | 11½% |
| Henry Ansbacher | 11½% | Hongkong & Shanghai | 11½% |
| Associates Cap. Corp. | 12 % | Johnson Matthey Bkrs. | 11½% |
| Banco de Bilbao | 11½% | Knowsley & Co. Ltd. | 12 % |
| Bank Hapoalim | 11½% | Lloyds Bank | 11½% |
| Bank Leumi (UK) | 11½% | Edward Manson & Co. | 12½% |
| BCCI | 11½% | Meghraj & Sons Ltd. | 11½% |
| Bank of Ireland | 11½% | Midland Bank | 11½% |
| Bank of Cyprus | 11½% | ■ Morgan Grenfell | 11½% |
| Bank of India | 11½% | Mount Credit Corp. Ltd. | 11½% |
| Bank of Scotland | 11½% | National Bk. of Kuwait | 11½% |
| Banque Belge Ltd. | 11½% | National Giro Bank | 11½% |
| Barclays Bank | 11½% | National Westminster | 11½% |
| Beneficial Trust Ltd. | 12½% | Northern Bank Ltd. | 11½% |
| Brit. Bank of Mid East | 11½% | Norwich Gen. Trust | 11½% |
| ■ Brown Shipley | 11½% | People's Trust | 12½% |
| CL Bank Nederland | 11½% | PK Finans. Intl. (UK) | 12 % |
| Canada Permanent | 11½% | Provincial Trust Ltd. | 12½% |
| Cayzer Ltd. | 11½% | R. Raphael & Sons | 11½% |
| Cedar Holdings | 12 % | Roxburghe Guarantee | 12 % |
| ■ Charterhouse Japhet | 11½% | Royal Bank of Scotland | 11½% |
| Citibank NA | 11½% | Royal Trust Co. Canada | 11½% |
| Citibank Savings | ¶12½% | Standard Chartered | ‖11½% |
| City Merchants Bank | 11½% | TCB | 11½% |
| Clydesdale Bank | 11½% | Trustee Savings Bank | 11½% |
| C. E. Coates & Co. Ltd. | 12 % | United Bank of Kuwait | 11½% |
| Comm. Bk. N. East | 11½% | United Mizrahi Bank | 11½% |
| Consolidated Credits | 11½% | Westpac Banking Corp. | 11½% |
| Continental Trust Ltd. | 11½% | Whiteaway Laidlaw | 12 % |
| Co-operative Bank | *11½% | Yorkshire Bank | 11½% |
| The Cyprus Popular Bk. | 11½% | | |
| Duncan Lawrie | 11½% | | |
| E. T. Trust | 12 % | | |
| Exeter Trust Ltd. | 12 % | | |
| Financial & Gen. Sec. | 11½% | | |
| First Nat. Fin. Corp. | 12½% | | |
| First Nat. Sec. Ltd. | 12½% | | |
| ■ Robert Fleming & Co. | 11½% | | |
| Robert Fraser & Ptrs. | 12½% | | |
| Grindlays Bank | ‡11½% | | |

■ Members of the Accepting Houses Committee.

* 7-day deposits 5.00%. 1-month 8.50%. Top Tier—£2,500+ at 3 months notice 11.25%. At call when £10,000+ remains deposited.

‡ Call deposits £1,000 and over 5.00% gross.

‖ 21-day deposits over £1,000 9.25%.

¶ Mortgage base rate.

§ Demand dep. 8%. Mortgage 13%.

FOREIGN AFFAIRS: AFTER LUXEMBOURG

# New faith in the old model

By Ian Davidson

THERE WILL be a good deal of shouting and roaring in the European Parliament this week, to the effect that the modest package of reforms painfully negotiated at last week's European Community summit in Luxembourg is woefully inadequate and is, in addition, an insult to the Parliament's legitimate claim for a much more powerful role as the representative of European democracy.

Some Members of the European Parliament (MEPs) will argue that they must use their muscle to challenge the agreement as a whole, for example by blocking the Community's budget. Conceivably, the European Parliament could bring about the collapse of the entire edifice, if it persuades the Italian parliament to refuse ratification.

The MEPs have a sort of case for their complaints. The reforms drafted in Luxembourg are pretty modest by the standard of the most ambitious aspirations; in particular, they fall well short of the blueprint for an entirely new Treaty of European Union, which had been proposed by the Parliament itself. The member governments have agreed a modest increase in the Parliament's influence on Community decision-taking, but the change will be small compared with the Parliament's own demand, for the right of co-decision with the Council.

Similar criticisms could be made of other parts of the package, as well. When push came to shove, few if any of the member states were prepared for really radical commitments. Many were anxious to secure exceptions which would protect narrow national interests. Majority voting will be more closely circumscribed than it might have been; there is a target date for the complete liberalisation of the internal market by 1992, but the date will have no legally binding force; the European Monetary System will at last be recognised within the treaty framework, but it will be hedged around with constraints which will make its further development, if anything, more difficult than it was before.

In short, it's a rather modest package as Mrs Thatcher keeps reiterating, and one can have some sympathy with those "good Europeans" whose idealism remains undimmed, and who feel it ought to have been a bit more, well, *exciting*. After all, it is nearly 30 years since the Rome Treaty was first signed, and the world has moved on since then: if we're going to go through the effort of treaty revision and parliamentary ratification, at least let it be the occasion for a vibrant celebration of the European ideal, with reforms on a correspondingly ambitious scale. No one can get a thrill out of the minor adjustments which have finally emerged; most people will simply grasp that these adjustments are both modest and complex, and promptly lose interest in the whole question.

One can have sympathy with this point of view, not least because the Community was built, not by the minimalists, but by statesmen of imagination, courage and idealism. That idealism has suffered many severe setbacks these past 15 years; if the credibility of the European Community idea is to be revitalised, there seems to be a case for something bolder.

Faces from the summit: Jacques Delors (left), Bettino Craxi and Jacques Senter

For better or for worse, this argument is anachronistic and misguided on at least three grounds. First, there is the strictly practical consideration of the parliamentary imperative. The would-be federalists may resent the ideological prejudices of *foot-draggers* like Denmark, Greece and Britain; but from where we now stand, there is no option but to go for an agreement which just *may* get the acquiescence of 12 legislatures, and even that modest aim may prove too difficult. The European Parliament's idea, of a new Treaty which could be adopted and implemented by a majority of the member states, is simply a recipe for legal chaos.

Second, if it's the public credibility of the Community that is at stake, then the last thing we need is yet another grand declaration heavy with portentous promises. The history of the Community is littered with heady communiques whose solemnity was matched, in the event, only by their vacuity. It would be distressing to recall the many occasions on which the governments solemnly undertook to create an Economic and Monetary Union in the shortest possible time, or even the bewitchingly vague millenium of European Union *tout court*. What happened? Strictly nothing. Personally, I have a weakness for Euro-froth; but by itself, it is worse than useless.

Third, the vacuousness of the declarations of the 1970s has now been amply explained by the negotiations which concluded in Luxembourg. Over a decade ago, the member states were ready to make paper promises about a new target of Economic and Monetary Union; now it turns out that they have misgivings about living up to the more banal obligations of the Rome Treaty as it stands, and these misgivings are by no means confined to the newer or poorer member states.

Moreover, the stagnation of the past 15 years has prompted growing speculation over whether the Community model for *integration* is, after all, the most viable, let alone the only, model for the European enterprise. The resounding declarations of the 1970s showed that governments felt psychologically and politically tied to the Community ideal; but events demonstrated that progress in some areas was in fact easier outside the treaty framework, on a government-to-government basis, with varying numbers of participants. For example, we had the gradual co-ordination of foreign policies and the European Monetary System; more selective co-operative projects in technology, industry, space, civil aircraft and arms procurement; and more recently security policy in the resuscitated Western European Union.

Several ingenious concepts have been spawned to describe this pattern of events, and to predict its projection into the future: variable geometry, a two-speed Europe, a two-tier Europe, concentric circles, differentation, Europe à la carte. And while the beads of government were negotiating in Luxembourg, I was reading a new book on this subject by Helen Wallace of the Royal Institute of International Affairs, called *Europe: the Challenge of Diversity*.*

It is a searching and concise analysis of the central problem: which policy areas *ought* to be handled inside the Community framework, and which can be left to looser arrangements? As she admits, it does not admit easy answers. Free trade may produce losers as well as winners, certainly in the short run. There is little consensus among economists on what constitutes an optimum currency area. Given the wide diversity of prosperity, economic structure, climate and history, it is not obvious that policies which might benefit Germany and the Netherlands would also benefit Portugal and Greece, or even Scotland and the Mezzogiorno. As Dr Wallace admits: "Intellectually and analytically, this is all rather difficult to handle."

Behind these specific intellectual issues, however, there seems to lie another clutch of questions which are more diffuse, still more difficult to handle, but which may be much more important politically, precisely *because* they are so diffuse. These are questions like: "What is Europe? What is the European enterprise *for*? Is it very important, and if so, how important?" Governments answer these questions, not by what they say, but by what they do.

*The Founding Fathers* gave a downright answer nearly 30 years ago, by signing an open-ended treaty; with sweeping general objectives and precise obligations; with independent institutions and the power to assume new responsibilities; and with the legal discipline of an international court. Amid the buffetings of the 1970s, the collapse of Bretton Woods, two oil crises, inflation and unemployment, *their successors* gave a very different set of answers; their priorities became more nationalist, the Community marked time, and such European impetus as remained leaked out into variable geometry.

But that balance of priorities is not carved in stone. The Founding Fathers' simple model may have underrated the real difficulties of the integration process. But nothing tells us that the Community model is fated to hit a brick wall, and that the future lies in some form of variable geometry. It all depends on how governments respond to the big questions. The more importance they attach to Europe, the more they are likely to look to the Community model.

This not to denounce variable geometry; it may often be a useful complement. But its *political* significance is determined by the state of health of the Community; if the Community is alive and well, variable geometry may be less necessary, and is certainly less threatening to the principle of European political solidarity.

From this perspective, the Luxembourg package needs to be judged by its overall thrust. The bargains, the exceptions, the reservations may seem a bit tawdry; but they are less significant than the general fact that the package represents a reaffirmation of the importance of the Community model; with independent institutions (and more majority voting and more democracy); with powers to assume new obligations (foreign policy, EMS and a free internal market by 1992); and with the legal discipline of an international court (whose role will be marginally strengthened). It only remains to be seen whether the governments will answer the big question in the same way in practice in the months ahead.

* *Europe: The Challenge of Diversity; Helen Wallace with Adam Ridley; RIIA; Chatham House; £5.95.*

## Lombard

# Tax relief for risk capital

By William Dawkins

THE British Treasury has a small problem. Despite repeated efforts to nudge the Business Expansion Scheme back on to its intended course, *this flagship of the Government's* small business policies—it offers generous tax reliefs for investment in unquoted companies—continues to get blown in the wrong direction.

Minor adjustments are not the answer; the good ship BES needs a complete refit. To be fair to its designers, the BES has gone some way towards fulfilling its aim of assisting small businesses which find it hard to raise equity from other sources.

After an unsuccessful launch as the Business Start-Up Scheme, which foundered because it was too restrictive, the BES soon made strong headway. Nobody with risk capital to spare could ignore the attraction of being able to offset the cost of buying unquoted shares against their top marginal income tax rate.

Yet the popularity of farming ventures last year and of property developers earlier this year shows that the scheme can all too easily be turned to uses for which it was never intended. Despite the fact that those two loopholes were quickly blocked, creative minds in the City of London continue to exploit—with increasing success—other cracks in the BES.

The past few months have seen a new flood of supposedly safe asset-backed issues—most of which are just raising money for stock or property—undeterred by Inland Revenue attempts to interpret the rules more strictly.

They cover an exotic range of ventures, from racehorse breeders to dealers in vintage wine and antiques. The beauty of these types of ventures is that they allow investors to make money even if the value of their assets stays still.

In doing so, they indirectly use taxpayers' money to support businesses which are not of central importance to the economy, let alone to the Government's small business policies. Moreover, they make it harder for the more humdrum trading companies which are more representative of the small business sector, to attract BES investors' attention.

It is no accident that BES funds, which invest in a spread of businesses and tend to stay more in line with the scheme's real purpose, are finding it *tougher* to *raise* money this year than ever before. That is partly because no fund can yet pull a glowing success story out of its locker, though quite a few have their names pinned to one or two corporate wrecks.

Yet the Government would win friends among the small business community if it stopped tinkering around with loopholes and instead gave the scheme a comprehensive rethink. The funds, in particular, find it hard to compete against direct issues because they cannot offer instant tax relief. Their lives would be much easier if they could offer tax relief from the moment they get investors' money, rather than having to wait until the cash is placed with small businesses.

Originally perceived by the Government as slightly undesirable participants in the scheme, BES funds are now proving their worth as sources of management advice for portfolio companies as well as a means of channelling City money into far-flung regional ventures.

While the asset-backed issues look as safe as the houses some of them invest in, they tend to offer less scope for performance than the riskier industrial ventures. This could be turned to the scheme's advantage if investors were rewarded for putting money into businesses with high growth prospects, rather than being rewarded for just getting their money back.

The way to achieve that would be to allow investors to sell BES shares free of capital gains tax. Something like that method has already been tried on a broader front in the US, where capital gains tax rate reductions in the late 1970s were followed by instant surges in venture capital investment.

The same medicine applied to the BES would not only boost overall investment in the scheme; it could also leave dealers in vintage wine and antiques looking rather less attractive as tax-efficient investment propositions.

# Letters to the Editor

### Pension fund surpluses

*From Mr A. Wilkie.*

Sir,—Mr Chappell (November 29) may enjoy his quip at actuaries, but his own simple arithmetic still fails to get a quart out of a pint pot. If pension funds and life offices were to have £5bn less income, they would have £5bn less to invest somewhere. It is not obvious that companies with £3.25bn extra to invest would do it in the same way as their pension funds.

At least he and I are agreed that this would be primarily a question of shuffling financial assets. There would be no possibility of using £1.75bn of tax from this source to reduce income tax, without causing other major effects.

This discussion, however, is quite hypothetical. It has now been possible to study the article published by London Business School on which you reported on November 25. Sadly, it is a prize example of a little learning being a dangerous thing. The authors have so misunderstood the workings of pension funds, and the significance of the statistics they have used, that their results must be treated as wholly spurious.

Their figures include the ordinary life business of life offices, the assets for which are at least a quarter of their total of £250bn. Investment profits here are passed on to policyholders. The tax treatment is quite different from that of pension funds.

They appear to assume that the liabilities of pension funds rise with price inflation whereas most accruing pension fund benefits are linked to salaries. To allow for this alone would eliminate most of the purported surpluses.

They appear to assume that there have been no benefit improvements over the period since 1972, no move towards index linked or discretionary increases in vested pensions or deferred pensions, and that the Social Security Pensions Act 1975 (Serps and contracting out) has had no effect.

They ignore the fact that, if asset values rise because of a fall in interest rates or yields, it is necessary to assume that future contributions will be invested at these higher prices and so will earn lower returns.

The methodology of their calculations on the effect of redundancies seems highly suspect: it is to be explained in detail in a future paper. But as already pointed out in an article by Eric Short (November 29), among larger schemes the cost of enhanced pensions for early retirements has tended to cancel out profits from redundancies at young ages.

It is unfortunate that a serious attempt to use national financial statistics to interpret the true position of pension funds should have run into so many difficulties. I hope the authors of the LBS article will be willing to learn something about how pension funds really operate and then try again.

A. D. Wilkie,
R. Watson & Sons,
*Watson House,*
*London Road,*
*Reigate, Surrey.*

### Monopoly on monopolies

*From the Director, National Consumer Council*

Sir,—Like Dr Irwin Stelzer, December 5, this council believes that the *privatisation* of monopoly utilities means that the whole question of regulation needs to be rethought. A single regulatory body would have a number of advantages compared with a series of mini-regulatory agencies. It would be able to carry out comparisons between the different utilities; it would be more cost-effective, avoiding duplication of staff and resources; and it would find it much easier to resist "capture" by the individual industries it is set up to control.

We also agree strongly that the regulatory body should be able to carry out detailed investigations into industry performance and to adjust the price control formula accordingly. The weakness of the price regulation method applied to BT is already becoming painfully obvious. These problems are inevitable in any system that relies on guessing, five years ahead, what the "correct" rate of price rises should be.

It is understandable that both the privatised monopoly utilities and Government wish to avoid the lengthy legal wrangles that sometimes beset US regulatory procedures. To argue from this that there are no lessons to be learned from the US is to throw the baby out with the bathwater.

Jeremy Mitchell,
*18 Queen Anne's Gate, SW1.*

### Disagreeing with Dr Stelzer

*From Mr M. Richardson*

Sir,—As part of our work as financial advisers to the Secretary of State for Energy on the privatisation of BGC, N. M. Rothschild and Sons have advised the Department of Energy on the proposed regulatory system. We have had a team of specialists who have *primarily* been devoted to this particular task. I would like to make it clear that Dr Stelzer of our New York office, whose experience primarily lies in the very different environment of the USA, has not been involved in our work for the Government at all and has not seen any papers on BGC privatisation. Dr Stelzer was, therefore, not aware of HMG's carefully prepared proposals on regulation when he met a journalist from the Financial Times some two and a half weeks ago, *before* either the Bill or the draft licence was published. I would like to make it clear on behalf of N. M. Rothschild and Sons, in the light of our detailed work on the proposed BGC regulatory system, *that we do not agree with the views attributed to Dr Stelzer in the Financial Times of December 5.*

Michael Richardson,
*N. M. Rothschild and Sons,*
*PO Box 185,*
*New Court, EC4.*

### Smoking and health

*From Sir John Mallabar*

Sir,—I have read with a mixture of amusement and irritation Mr Tennent's letter (December 2) on the evils of tobacco. Would he not have made a good Inquisitor in the high days of *the Inquisition*?

Let us consider his case. Is it fact that Government has not taken action to prevent people smoking because it fears loss of revenue? Could it not be that it respects the right of those of us who wish to smoke to do so? Would Mr Tennent argue that since road accidents cause many deaths the petrol tax should be doubled and redoubled each year until few cars remain on the roads?

It is with the greatest diffidence that I would question the views of the Health Education Council and those of the British Medical Association. But I am an old *man and started* to smoke during the 1914-18 war. In 1914 matches cost about two old pence for a dozen boxes and were in plentiful supply and (here I write from memory and am open to correction) the duty on matches was increased in 1915 or 1916. In consequence, and as matches came into short supply, petrol lighters (often made from empty .303 cartridge cases) came into use, and later were followed by gas lighters. Today few cigarette smokers use matches, although most pipe and cigar smokers do so.

Dynamite is pretty harmless unless married to a detonator. Has the BMA proved that it is cigarettes and not the means of their ignition which is the cause of deaths from lung cancer? The fumes from burning petrol or gas are hardly healthy. What has been the effect of taxing matches? I do not claim to know—I only question.

(Sir) John Mallabar
*39 Arlington House*
*St James's, SW1.*

### Complex factors in buyouts

*From Dr S. Green*

Sir,—Your article on US leveraged buyouts (December 5) quite rightly points to management attitudes as a key ingredient in the success of buyouts. The reasons you adduce, however, for why managers change their spots are not altogether borne out by research we are currently undertaking in the strategic capabilities of UK buyouts.

Entrepreneurial professional managers as often make buy outs, as buy outs make *entrepreneurs. We* have found that in large UK buy outs of divested subsidiaries, the prospect of financial rewards or losses is not the prime motivator. Rather, there is a complex web of factors at work: the challenge of controlling a business unhampered by the culture of politics of a parent company; the freedom from autocratic corporate policies geared to the whole rather than the specific needs of the subsidiary; the greatly increased visibility of managerial efforts and skills; the enhanced mutuality of interests among senior executives; to mention just a few.

It is one of the lingering management myths that the prospect of an economic trinket is the galvanising incentive for what Adam Smith terms "the anxious vigilance for other people's money."

Dr Sebastian Green,
*Centre for Business Strategy,*
*London Business School,*
*Sussex Place, NW1.*

### Mortgage tax relief is an illusion

*From Mr W. Murphy,*

Sir, — Church leaders have it all wrong. It is tenants paying rent who are subsidised and not owners paying mortgage interest.

Rents are subsidised, perhaps by direct government subsidy or by many landlords who are restrained by rent controls.

Mortgage tax relief on the other hand is an illusion as there is no such thing; to believe otherwise is to fail to understand the basic principle of our tax system. Work it out for yourself: if I pay mortgage interest I have already spent the money with which I should have paid tax if I had not paid interest, so what have I saved?

Men of letters should not try to figure — they are no good at it.

W. Murphy,
*17 Montague Drive,*
*Loughborough, Leics.*

FINANCIAL TIMES

Monday December 9 1985



Michael Morgan on Wall Street

# Shifts in investment strategy

THE LARGEST US financial institutions – superfunds with portfolio values of more than $1bn – have been shifting their investment strategies with a marked rise of holdings in small public companies.

The largest 188 institutions are now estimated to place more than 14 per cent (about $85bn) of their total investments in companies with market capitalisations of between 10m and 30m shares outstanding. That compares with just 8 per cent five years ago.

Many of the smaller companies are relative newcomers to the stock markets with their shares traded in the Nasdaq Over-the-Counter market. The increased institutional investment bas provided a spur for the market's rapid growth.

Trading volume on Nasdaq is projected to top 20bn sbares this year, breaking 1983's previous record of 15.9bn and compared with less than 4bn shares in 1979.

The most prominent sector of the market, where stocks are subject to last-sale reporting, grew from just 40 listed companies in April 1982 to 1,180 at the end of last year. During 1985, a further 1,000 have been listed.

The Nasdaq market has traditionally been the home of small high-technology companies, which could not meet the listing requirements of the New York Stock Exchange or the American Stock Exchange. Having successfully sought the capital they needed for growth, many of its stars, like Apple Computer and MCI Communications, have opted to remain with Nasdaq even after they qualified for a listing on the older-established institutions.

Trading activity in most sectors of Nasdaq has risen this year. Volume for computer stocks has increased by 42 per cent, for quoted regional bank stocks it has risen by 67 per cent while the airline group, beaded by People Express, has soared 129 per cent.

By Nasdaq's own figures, a total of 2,700 financial institutions beld 41,258 positions in the market at the end of July worth $71.7bn, or 28 per cent of the market's valne.

Tha total portfolio value of the superfunds alone rose to $596bn last year from $554bn a year earlier, according to Mr Thomas Wallace of Makovsky & Co, and the indications are that the growth has continued. The total value of all reported equity portfolios was $805bn at the end of September, compared with $746bn a year earlier.

The picture of a changing investment approach over the last five years was built up by Makovsky and H. F. Pearson, an institutional tracking company, through a study of disclosure documents lodged with the Securities and Exchange Commission.

Institutions holding more than $100m in equities have to make quarterly returns disclosing their transactions and at the last count, almost 800 were doing so.

Mr Wallace says an easing in the strict investment guidelines set by the superfunds has effectively admitted the smaller growth companies into the investment pool.

"This is n signal of genuine importance to companies that feel closed out of the large institutional market."

Among the superfunds are investment advisers, banks, insurance companies, pension funds, universities and mutual funds. Pole position is held hy Bankers Trust, with a portfolio value of more than $19.8bn, followed by Wells Fargo with $17.5bn and Bank of New York with $17.1hn.

The hulk of their investments still goes into the large capital stocks traded on the New York and American stock exchanges. However, last year alone, an estimated $70bn to $80bn worth of shares were withdrawn from the market as a result of leveraged buyouts, mergers and huyhack schemes, and the trend has continued. That has provided an incentive for the institutions to seek out new investments.

Deutsche to hive off core companies, reports **John Davies in Frankfurt**

# Plans laid for Flick sell-off

DEUTSCHE BANK, West Germany's biggest bank, expects to offer the "core companies" in the Flick group for sale to investors in spring next year, possibly as early as March.

Investors will be offered a stake througb a single holding company which will bring together the three core companies – Feldmühle, the paper-maker, the Dynamit Nobel chemical group and Buderus, the iron and steel company.

Mr F. Wilhelm Christians, Deutsche's joint chief executive, said the holding company would probably be called Feldmühle-Nobel, be headquartered in Düsseldorf and have its shares listed on the West German stock exchanges.

Last week it was announced that Deutsche Bank would take over the diversified Flick business interests for later disposal to investors in the higgest transaction of its kind in West German history.

The Flick group is the largest privately owned business in West Germany. There has been speculation for some time that Mr Friedrich Karl Flick, son of its founder, migbt sell out because of the need to safeguard the group against inheritance taxes and because of the group's association with political payoff allegations.

Deutsche executives, in spelling out details of the deal, have disclosed that the bank will pay Mr Flick a "quasi-fixed" price of DM 5hn ($1.98bn) in cash over six months for his interests. These include not only the core companies but also the Flick group's 10 per cent stake in Daimler-Benz and its 26 per cent holding in W. R. Grace, the diversified US company.

The Flick interests will be converted into the legal form of a joint stock company this month and will pass into Deutsche Bank's hands from January 1.

In the ensuing weeks, the bank will dispose of the stakes in Daimler and Grace, as well as the Flick group's large indirect stake in the Gerling insurance company. Mr Flick intends to take over the Gerling stake personally, although it is thought be will later sell it.

Deutsche, which expects a tax bill of "several bundred million" D-Marks to result from these disposals, will then float the holding company on the stock market.

Executives said the bank would have high costs and was bearing "considerable risk" in the venture, but it is generally assumed it will make a very substantial gain. At current stock market prices, the Daimler stake alone is worth nearly DM 4bn.

Deutsche executives said it was not yet clear what would happen to the Grace stake, as Grace itself has an option on it. The bank was in "friendly negotiations" with Grace.

Mr Alfred Herrhausen, one of Deutsche's joint chief executives, said the Flick deal amounted to a "deconcentration" in contrast to recent merger moves in West German husiness. Deutsche does not intend to retain any Flick interest and aims to spread ownership as widely as possible.

Mr Herrhausen said Deutsche was not particularly seeking a place on the supervisory board of the new bolding company, hut would not rule that out.

Bank executives indicated that management would be appointed to the holding company soon end it would be up to that management to decide wbat might bappen to the group's stake in Krauss-Maffei, the armaments company. The Flick group sold most of Krauss-Maffei to a consortium earlier this year.

Mr Flick will face a hefty tax bill as a result of his sale to Deutsche, perhaps more than DM 1hn, hut it will still leave him one of the richest men in the world and certainly hard to beat in terms of liquid assets.

Deutsche executives said they did not know what plans Mr Flick had for his money, but pointed out that he is a member of Deutsche's own supervisory board and that the hank would gladly advise him on investments.

# Judge's ruling expected over $10.3bn Texaco bid damages

BY MARY FRINGS IN DALLAS

A TEXAS judge is due to decide tomorrow whether to confirm, reduce or set aside a controversial $10.3bn damages award to Pennzoil over Texaco's successful hid last year for Getty Oil. Final submissions from attorneys on both sides were made on Friday to Jndge Solomon Casseh.

Lawyers for Texaco, against which the record award was made, argued that the issues had not been properly submitted to the jury. That was because under New York law, Pennzoil would have to prove it had a binding and exportable contract with Getty, that Texaco had actual knowledge of such a contract and that there was active inducement to hreach it.

The lawyers – one New Yorker and one Texan – repeated the previous day's argument that, hased on stock value and discounted replacement costs for the 1hn barrels of oil that Pennzoil lost, actual damages if any should not exceed $500m, and that Pennzoil was not entitled to punitive damages.

They avowed the integrity of Mr John McKinley, Texaco's chairman, Mr Alfred DeCrane, its president and other senior officers, adding that if the Houston jurors thought they were punishing something "it was what they perceived to be the actions of Getty entities."

Counsel for Pennzoil said that was not the proper time for new submissions on the size of the damages award, and that a jury bad already rejected 12–0 all the points that Texaco was raising on the issue of the contract.

Outside the courtroom, Mr Hugh Liedtke, Pennzoil's chairman, said he was confident and optimistic about the outcome, and dismissed as "baloney" Texaco's plea that it might have to file for bankruptcy if it was faced with posting a $12bn appeal bond, since the company had assets worth $37bn.

Mr DeCrane, for Texaco, expressed equal confidence, saying it was "an open competition situation that we were involved in." He declined to speculate on Texaco's next move if it had to post the bond.

Mobil dispute resolved, Page 13

# Pan-Electric rescue talks continue

By Chris Sherwell in Singapore

THE SINGAPORE Government is continuing to promote efforts to rescue Pan-Electric Industries, the debt-ridden publicly quoted company that was placed in receivership nine days ago. The group's problems provoked last week's unprecedented three-day closure of the local stock exchange.

Talks have taken place during the past three days between the monetary authority of Singapore, Pan-Electric's 36 bank creditors and Mr Tan Koon Swan, the Malaysian entrepreneur who holds a 22.6 per cent stake in the company through Sigma International.

Sigma is at most immediate risk from a complete collapse of Pan-Electric, which bas debts totalling S$400m (US$187.5m). Sigma is understood to be under heavy financial pressure from its bank creditors, principally because its main asset is a potentially worthless stake in Pan-Electric.

Trouble for Sigma might in turn spell difficulties for Grand United Holdings, Mr Tan's flagship company, which has a 43.7 per cent stake in Sigma.

At the heart of Pan-Electric's difficulties – and lying behind the stock market crisis – is S$140m of commitments by Pan-Electric subsidiaries to buy shares in Grand United and in Supreme Corporation, which is also part of Mr Tan's business empire.

It is Pan-Electric's inability to fulfil those obligations that has also threatened the survival of at least one stockbroking company in Singapore. A default would prompt the use of a special S$180m standby credit put in place last week for troubled companies.

The latest Pan-Electric talks have focused on the need to inject more cash into the company and relieving it of its share purchase obligations. Those were also the main points of 11 days of abortive rescue talks before the company was placed in receivership.

On Friday, S$20m from a S$27m special account set up hy Mr Tan was released for use by Price Waterhouse, the accounting group appointed receiver and manager. The authorities had earlier seized the S$27m when the rescue talks failed.

Last week, a group of prominent Chinese businessmen said they would consider participating in the equity and management of Grand United, but that plan might take soma time to agree, if it materialises at all.

Pan-Electric's bank creditors have meanwhile placed more than 12 of the company's 68 subsidiaries in receivership, presumably to keep other creditors at bay.

# Tin Council's creditors prepare for court battle over claims

FINANCIAL TIMES REPORTER

THE International Tin Council's creditors are amassing legal arguments for substantial claims if efforts to resolve the world tin crisis – which has halted trading in the metal on the London Metal Exchange – fail and the issue ends up in the courts.

The council, which runs a price pact between producing and consuming countries, plunged the market into crisis when it announced six weeks ago that it had run out of money and owed large sums to the brokers and to its banks.

The tin council's emergency session on the crisis is due to resume tomorrow, possibly to set up a negotiating team, though it is still not clear whether members will honour the council's debts.

Frustrated hy the council's failure so far to accept a £900m refinancing offer from a consortium of banks led by Standard Chartered, creditors have been examining the way the ITC has managed its affairs.

They now seem prepared to press not only for the repayment of contractual debts but also for damages to compensate for losses to creditors caused, they allege, by lack of care on the council's part.

These claims could include damages for losses caused by the suspension of business on the London Metal Exchange. As a result of such claims the amount involved could well rise above the £1bn ($1.48bn) being considered up to now.

The creditors say the ITC's buffer stock started to operate with a fraction of the funds foreseen by the sixth International Tin Agreement, because some of the council'a signatories did not ratify the agreement.

They claim that the buffer stock was underfinanced from the beginning but that the ITC engaged in operations well exceeding the originally envisaged size. The creditors allege that this was done in disregard of the risk to which creditors were being exposed.

The creditors believe it would not be necessary to prove intent or recklessness on the part of the ITC, hut that it would be enough to show that the council ougbt to have known that its operations were likely to cause loss to creditors.

The creditors allege that the present crisis revealed that the member states were not willing to stand for the debts and therefore they must have been aware that, by plugging old debts with new borrowing while stocking up at artificially high prices, they were leaving the deficits to be met by creditors.

As members of an unlimited corporation the ITC members are in a similar situation to company directors. The liability of company directors has now been redefined in the UK Insolvency Act which received royal assent last month. It includes the concept, earlier developed by courts worldwide, of wrongful trading, which is a civil misdemeanour. Under the new Act not only fraudulent but also incompetent directors may end up with personal liability.

# Ex-Carrian chief held

Continued from Page 1

offered advantages to Mr Shamsuddin.

Mr Ho faces seven charges of fraud and one of bribery, while Carrie Woo Hoi-Lee, an associate of Mr Tan, faces one charge of fraud and three of bribery.

It is alleged that Mr Osman bad been offered gifts, fees or rewards totalling HK$64m and 9m shares in Carrian as inducements or rewards for showing favours. Mr Shamsuddin is alleged to have received shares and HK$16m in cash.

The offences are alleged to bave occurred between December 1979 and February 1982.

# Australian securities firm may link with Mercury

BY BARRY RILEY IN LONDON

POTTER PARTNERS, a leading Australian securities firm, is close to a decision to become part of the worldwide network of Mercury Securities, owner of the UK merchant bank S. G. Warburg.

The deal would involve the absorption of Potter's international husiness into Mercury's international securities arm, Rowak, and the acquisition of a 50 per cent interest by Mercury in Potter's Australian domestic operations.

Mr David Scholey, Mercury chairman, said yesterday: "We all hope that we will be coming to a successful conclusion to our discussions in the near future." He added that the deal would amount to a "significant addition" to Mercury's international involvement.

The price might be of the order of £10m ($14.8m), although the exact sum will depend on a complex formula based on net worth and Potter's future earnings. Discussions have been continuing for the past year and it is hoped thet the deal will be finalised early in 1986.

Potter already operates offices in London and New York. Its emphasis on mining and raw materials stocks is said to represent a very good fit with the existing activities of Rowak. The Australian domestic activities will also fill a gap in Mercury's existing international coverage. A previous interest in Australia, a 13 per cent stake in Australis Securities, was sold a year ago.

A few days ago it was announced that S. G. Warburg was one of the first batch of foreign firms to secure a coveted seat on tha Tokyo Stock Exchange. It is also represented in Hong Kong, where it has a participation in the East Asia Warburg merchant bank end plans to establish an operation in Singapore at a suitable time in tha future.

The deal comes as Mercury prepares to restructure its London-based securities operations next spring, when the London Stock Exchange will for the first time permit 100 per cent-ownership of member firms by outsiders.

This will bring together market-makers Akroyd & Smithers, brokers Rowe & Pitman, Rowak International (a joint venture between the first two) and another broking firm, Mullens, the leading gilt-edged specialists.

The Australian stock market has been going through a structural upheaval roughly similar to that being experienced in London. A number of securities firms such as A.C. Good and Ord Minnett have already linked up with banks, and Potter is one of four leading firms still independent.

The other three ,Baine, J. B. Were and Potts West Trumbull, have declared their intention to stay independent. Potter Partners, however, has indicated its readiness to negotiate an appropriate relationship with a larger institution.

# Distillers' bank accused of 'disloyalty'

Continued from Page 1

Mr Gulliver said last nigbt that if successful he would reduce some of the investments owned by Distillers and was unlikely to hold on for very long to the company's shares in British Petroleum and the Bank of Scotland. These currently have a market value of about £120m.

Mr Gulliver added that he might in time sell off Distillers' food interests, in which he said almost a third of the workforce was currently employed.

He said Argyll was anxious not to damage the whisky industry by a precipitate sale of Distillers' excess stocks of the spirit, which he valued at about £300m.

# World Weather

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | F | 18 | 64 | Dubrovnik | S | 16 | 61 | Malaga | R | 11 | 52 | Salzburg | F | 8 | 46 |
| Akrotiri | S | 22 | 72 | Faro | C | 18 | 81 | Malta | S | 18 | 64 | Seoul | S | -4 | 25 |
| Algiers | S | 16 | 61 | Florence | C | 15 | 59 | Manila | – | – | – | Singapore | Th | 26 | 79 |
| Amsterdam | C | 5 | 41 | Frankfurt | C | 9 | 48 | Miami | F | 21 | 70 | Stockholm | S | -12 | 10 |
| Athens | F | 17 | 63 | Funchal | F | 18 | 64 | Milan | D | 8 | 46 | Strasbourg | C | 0 | 48 |
| Bahrain | – | – | – | Geneva | C | 7 | 45 | Moscow | Sn | -5 | 23 | Sydney | S | 29 | 84 |
| Bangkok | – | – | – | Gibraltar | F | 14 | 57 | Munich | S | 10 | 50 | Taipei | – | – | – |
| Barcelona | S | 13 | 55 | Guernsey | F | 11 | 52 | Nairobi | C | 25 | 77 | Tangier | – | – | – |
| Beirut | – | – | – | Helsinki | C | -5 | 23 | Naples | S | 14 | 57 | Tehran | – | – | – |
| Belgrade | S | 14 | 57 | H. Kong | S | 21 | 70 | New Delhi | S | 23 | 73 | Tel Aviv | – | – | – |
| Berlin | C | 7 | 45 | Innsbruck | F | 3 | 37 | New York | F | 3 | 37 | Tenerife | F | 20 | 68 |
| Biarritz | C | 11 | 52 | Inverness | Sn | 1 | 34 | Nice | S | 10 | 50 | Tokyo | C | 10 | 50 |
| Blackpool | F | 4 | 39 | Istanbul | S | 13 | 55 | Oporto | C | 10 | 50 | Toronto | C | -1 | 30 |
| Bordeaux | D | 9 | 48 | Jersey | F | 9 | 48 | Oslo | S | -12 | 10 | Tunis | S | 17 | 63 |
| Brussels | C | 8 | 46 | Jo'burg | F | 27 | 81 | Paris | C | 8 | 46 | Valencia | C | 13 | 55 |
| Budapest | C | 10 | 50 | Las Palmas | F | 21 | 70 | Prague | F | 8 | 46 | Venice | Fg | 9 | 48 |
| B. Aires | – | – | – | Lima | – | – | – | Reykjavik | F | -5 | 23 | Vienna | Fg | 3 | 37 |
| Cairo | S | 22 | 72 | Lisbon | F | 14 | 57 | Rio de J'o | – | – | – | Warsaw | C | 6 | 43 |
| Cape Town | S | 24 | 75 | Locarno | Fg | 8 | 46 | Rome | C | 14 | 57 | Zurich | F | 8 | 46 |
| Caracas | – | – | – | London | C | 8 | 46 | | | | | | | | |
| Casablanca | – | – | – | Los Angeles | C | 11 | 52 | | | | | | | | |
| Copenhagen | Sn | 0 | 32 | Luxembourg | S | 6 | 43 | | | | | | | | |
| Corfu | S | 19 | 66 | Madrid | C | 7 | 45 | | | | | | | | |
| Dublin | S | 7 | 45 | Majorca | F | 16 | 61 | | | | | | | | |

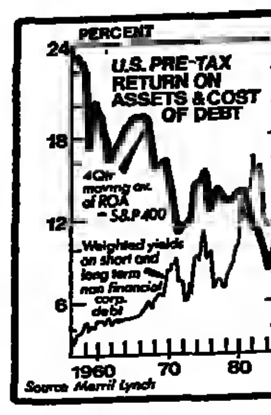
Readings at mid-day yesterday:

C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

# A strange affair from Flick

Mr Friedrich Karl Flick is always good for a surprise. If the protracted Flick affair almost brought down a government and introduced the West German public to one of the world's strangest corporate cultures, it pales beside last week's announcement that Mr Flick is selling to the Deutsche Bank all but a small piece of his industrial empire for the round sum of DM 5bn.




The Frankfurt market was duly astonished. If Deutsche Bank does as promised and floats the core paper, chemicals and engineering husinesses next year for anything like DM 5bn it will be as large as the entire volume of new issues on the stock market in many years since the war. Even given the greater popularity of equity issues since the start of the bull market in 1982, the flotation would still dwarf its nearest competitors – Springer and Nixdorf – by a factor almost of 10.

However, the whole business is much odder than that. The "quasi-firm" price of DM 5bn announced by the Deutsche Bank's spokesman on Friday is actually less than the market value of Flick's trade investments, which are to be sold individually by Deutsche Bank (excluding the Gerling insurance stake). These investmeots make up DM 2.1bn of the Flick holding companies' DM 7.8bn in gross book assets and consist primarily of 10 per cent of Daimler-Benz (worth roughly DM 4hn in the market) and over a quarter of W. R. Grace (say, DM 1.5bn).

At this stage, three conclusions are possible: Mr Flick is fed up and wants out, the core husinesses are worthless or the Deutsche Bank is making the killing of the century. There is something to be said for all three.

Mr Flick has shown no obvious pleasure in having lent his name to a celebrated political scandal; but his own explanation for the sale – giveo in a characteristically eccentric open letter – was that he wanted to relieve the group of tax liabilities. Of course, the very origin of the Flick affair was the group's aversion to paying capital gains tax on the 1975 sale of another 28.5 per cent of Daimler to the bank; but last week's announcement will probably not affect the group's liability to back tax on that deal, now being contested in the courts. Rather, the group can probably now be detached from Mr Flick's own liability to a sort of pseudo-inheritance tax on the assets of the family foundations. It could be that Mr Flick will need all his DM 5bn to cover these obligations.

With net earnings of just over DM 200m on external turnover of DM 10.5bn, the core operations are certainly not West Germany's most profitable businesses. However, a figure adjusted for special depreciation and provisions might be considerably more than that – and there is obvious scope for improvement from a new management not demoralised hy a political scandal now entering its sixth year. As it is, Deutsche Bank has wisely opted for a flotation en bloc with Feldmühle (which is riding a cyclical peak in the paper industry) dragging Dynamit-Nobel and Buderus with it. There is also the residual Flick stake in Krauss-Maffei, the armaments manufacturer.

Until more is known of these businesses, it is impossible to place a value on them. What is likeliest of all is that Deutsche Bank will be making rather more than the tenth of a per cent usual as commission income on such a deal.

## UK merger policy

Hanson Trust's move on Imperial Group must be the last straw for the Office of Fair Trading. Faced with a host of billion-pound bids which raise tricky issues far removed from competition, the OFT was at least on safe ground with Imperial and United Biscuits. Consumer choice in the UK snacks market is the sort of matter with which both the OFT and the Monopolies and Mergers Commission feel at home.

If, as seems likely, Lord Hanson torpedoes the Imps/UB deal, the OFT will have no obvious justification for referring any of the proposals on its desk. It would, for example, be inconsistent to refer the merger of Habitat-Mothercare and BHS so soon after allowing Burton Group to proceed with its takeover of Debenhams. And while there must be an even chance that a GEC/Plessey deal would be referred, the OFT might find it hard to justify tha decision on straightforward competitive grounds. Not only would the combined group be substantially smaller than several of its competitors in the international telecommunications market; its power as a supplier would not exactly overwhelm its principal UK customers, British Telecom and the Ministry of Defence.

Meanwhile, neither Hanson's bid for Imperial nor Argyll's assault on Distillers need trouble the OFT on competitive grounds at all. In the bad old days of hit-and-miss merger policy, the OFT could have invoked the public interest and referred everything in sight. But to do that now would make a mockery of the Government's pledge that competition should be the main plank of merger policy.

The OFT has already strayed into dangerous territory by referring the Elders bid for Allied-Lyons. The financial structure of that deal may indeed be a matter of public interest and, in the ligbt of US experience, a case can be made for investigation. But it is questionable whether the Monopolies Commission is the body best equipped to determine the financial soundness of the proposal, to make general recommendations about changes, if appropriate, to the Companies Act and the Banking Act, or for that matter to judge the impact of such transactions on bank balance sheets.

The OFT should resist any temptation to refer the Argyll bid for Distillers on public-interest grounds. As presently constructed, the takeover would not produce an overstretched halance sheet and the future of the Scotch whisky industry Is at least as safe with Mr Gulliver as it is with the present Distillers management. The OFT has just about been able to persuade the markets that it referred Elders and Allied purely because of the pro-forma financial structure, but that argument would look a lot weaker if it subsequently passed Argyll and Distillers on to the Monopolies Commission.

The OFT has, in the past two years, brought a greater clarity and predictability to competition policy. If the impression were created that foreigners were unwelcome, Scotland was there to be protected or government had an obligation to protect the financial markets from their own excesses, competition policy would rapidly fall into the disrepute from which it has only very recently arisen.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday December 9 1985



EURONOTES AND CREDITS

# BAT Industries brings note issuance facility back into line

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

BAT INDUSTRIES of the UK is to restructure its $240m note issuance facility arranged last year along more conventional lines as part of a plan to extend its maturity from 1990 to 1992.

The facility attracted attention when it was announced by Citicorp because it was the only one yet to be launched without an annual facility fee for underwriters.

Instead, participating banks took on a commitment to bid for paper issued by the company but there was no upper limit to the rates they could offer. The envisaged restructuring incorporates both an annual fee – of 5 basis points – and an upper limit on onte yields of 15 basis points.

The change indicates how far the note issuance facility has become a standardised product in such a short space of time. The original structure appeared to have one drawback: although participants were protected by the lack of an upper limit on onte yields, they still had a commitment on their books for which they were not being paid. BAT Industries, which has not used the facility, also ran the risk that it would have to pay over the odds in an adverse market.

The new BAT structure may have brought its deal more into line with other note issuance facilities, but bankers could be forgiven for thinking last week that the facility itself was on the way out as a new flood of Eurocommercial paper deals surfaced.

This sector of the market has now built up a powerful momentum which appears to be feeding on itself. Borrowers have realised that it is a low cost way of raising money that actually works. As the market has grown in depth, few want to be left behind and investment bankers, mindful of the bonuses they can earn from winning such mandates, even less so.

The largest of the new deals was a $500m programme for the State Bank of New South Wales for which Credit Suisse First Boston, Merrill Lynch, Morgan Stanley and Salomon Brothers will be joint dealers.

**EUROMARKET TURNOVER**
Turnover ($m)

| Primary Market | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US$ | 2,749.2 | 276.8 | 5,377.3 | 249.0 |
| Prev | 4,098.0 | — | 6,316.5 | 255.5 |
| Other | 829.3 | 290.7 | 1,765.6 | 145.0 |
| Prev | 1,227.4 | — | 1,409.6 | 11.6 |
| **Secondary Market** | | | | |
| US$ | 18,880.5 | 1,858.0 | 12,678.3 | 2,167.9 |
| Prev | 27,747.5 | 1,062.5 | 12,826.4 | 2,539.4 |
| Other | 5,717.9 | 267.3 | 2,948.8 | 1,871.1 |
| Prev | 4,793.4 | 69.3 | 1,188.5 | 1,855.6 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US$ | 12,420.0 | 31,591.9 | 44,011.9 |
| Prev | 15,904.6 | 37,941.2 | 53,845.8 |
| Other | 6,820.1 | 7,025.8 | 13,845.9 |
| Prev | 5,544.8 | 5,010.6 | 10,555.4 |

Week to December 5 1985 Source: AIBD

Morgan Stanley and Shearson Lehman Brothers International also launched a programme for Paccar Financial, an arm of the US truck manufacturer which plans its debut in the Eurobond market with a $100m issue in the new year. Paccar will use the programme as an alternative to its $320m US domestic programme and to provide bridging finance for bonds issued under its shelf registration programme in the US.

Citicorp has meanwhile been appointed sole dealer for a $200m programme for Italy's Banco di Santo Spirito as well as for a $150m Union Bank of Norway programme and a $50m programme for Bell and Howell of the US. With Merrill Lynch it is arranging a $150m programme for Skopbank of Finland.

Merrill Lynch has been appointed dealer for a $100m certificate of deposit (CD) programme for First Austrian Bank, the first such facility for an Austrian institution. There is little practical difference between CDs and Eurocommercial paper, but in this case the CD vehicle was chosen for Austrian regulatory reasons.

Last week also saw the launch of note issuance facilities including a $200m, five-year deal led by Chemical Bank for Associated Dry Goods Corporation, the US clothing retailer. This carries a facility fee of 10 basis points which rises to 15 points on amounts drawn in excess of $50m. The margin on drawings is 15 basis points.

MEPC, the UK property company, launched a £100m, seven-year revolving facility through N. M. Rothschild which carries a 25-point facility fee and a similar maximum margin. By the standards of deals elsewhere in the market this facility also offers a high front-end fee of 15 basis points.

Finally, Industrial Development Bank of India has launched the first ever tax-spared deal in the form of a $25m facility through S. G. Warburg and Dean Witter.

The facility fee on this 10-year deal starts at 10 basis points and rises after four years to 12.5 points, but lead managers are not disclosing how the notes will be priced to take advantage of tax sparing which allows lenders to take a tax credit in the UK even though no withholding tax has been paid in India.

Among deals already in the market the $300m, 10-year facility for Italy's Enel has been heavily oversubscribed despite its fine facility fee of 5 basis points. It had attracted $520m in commitments by Friday night. Also oversubscribed is the US bankers acceptance facility for the Soviet Foreign Trade Bank. The $700m facility for Gaz de France has made a strong start in syndication despite initial squabbling among lead managers over the allocation of roles within the group.

INTERNATIONAL BONDS

# Floaters in a sorry state towards year-end

CHRISTMAS cannot come too soon as far as the Eurobond market is concerned, writes Maggie Urry in London.

"I wish it was all over," said one trader last week, looking forward to a busy January. New issues are still coming, but most are ont going very fast.

The approaching year-end is one reason behind the sorry state of the floater market. Banks are sorting out their balance sheets for the annual snapshot and traders are trying to square their books. Last week prices were initially hit quite hard, although by Friday some cheap buying had come in to settle the market.

The slightly inverse yield curve has hit mismatch issues, where investors pick up the difference between one and three or six-month rates. Issues with a "higher of" coupon fixing, which gives protection against a downward sloping curve, have fared better than the others.

Another factor has been indigestion from the new paper issued in the last few weeks. Investors are taking a tougher line on the quality of the credits they are buying, with some disenchantment emerging with the US savings and loans and regional banks which have formed a large part of the issuing activity.

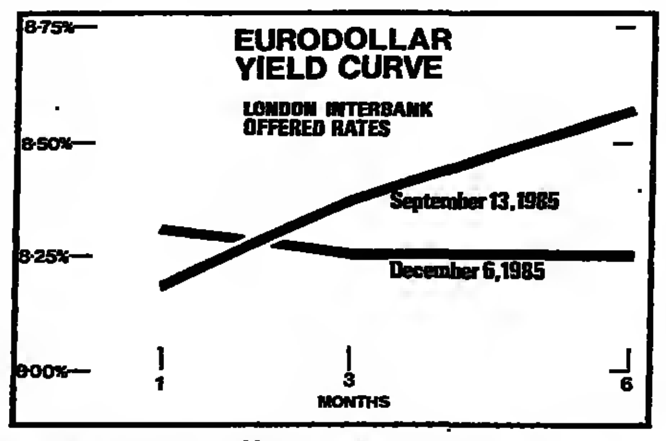
A rest from new issues would help the market and that wish could come true. There are rumours of deals coming, with Belgium a prime candidate, but not as many as usual.

The same is not true of the D-Mark floater market, which has not recovered from the shock of the December new-issue calendar with eight deals on it. Already one for Bank of Nova Scotia is reported to have been postponed and more could be and that news gave a little comfort on Friday.

Traders say that the market – which opened with the liberalisation of the West German capital markets in May this year – is just too young and unsophisticated to cope with the number of issues that have come. "There's an educational process the banks must go through," one West German banker said. "No German bank has any placing ability in floaters, they have never done it before."

The market in D-Mark floaters is made in London by the houses which already trade Eurodollar floaters. Investors are mostly the same for the two currencies and a sizeable demand within Germany has not yet developed.

In addition, capped floaters, where a maximum coupon is set – and many of the D-Mark issues are capped – have been unpopular with end investors. "They are like sardines, great for buying and selling but not eating," says one dealer.




This week may see some action in the $500m Italy floater where a "short squeeze" seems to be developing. Speculation is that a few houses have been told that they will not be allotted any bonds. Allotments go out on Thursday this week. Anyone short of the issue has already had some difficulty buying back paper, as it is hard to find an offer in the market.

A similar problem in the State Bank of India floater, signed on Friday, has pushed its price well above par.

In the non-dollar currency sectors, where retail investors are much more important, business is "very, very slow," according to dealers. A couple of Australian dollar straights, for Norddeutsche Landesbank and Unilever, were launched through a narrow window, but within hours the patch of demand had dried up, too quickly for Westdeutsche Landesbank whose deal came third.

The Eurosterling sector is also slow going, so J. Sainsbury's deal, led by S.G. Warburg, had a particularly gratifying response. It seems the few thousand dollars' cost of obtaining a credit rating, and a double A at that, was well worth it as the borrower got away with a cost of funds close to gilt-edged yields. The bonds were still comfortably within fees at the weekend despite a weak gilt market.

The brightest spot in Europe is the D-Mark equity-linked issues which seem rapidly to trade at a premium to issue price. Asko Finance's deal with equity warrants, issued at par, was trading at 107¼ on Friday. The company is a discount retailer in Germany.

The Swiss franc foreign bond market is lagging behind the domestic bond market, partly because of an excess of supply of paper at a time when investors are buying Christmas presents not bonds. Prices gained about ¼ point last week.

New issue activity could slow down as the terms for swaps, which have driven many deals, are deteriorating once more.

● The Bond Aid appeal for the Save the Children Fund has got off to a good start, with pledges already coming in. The organisers say that the continental European banks have been much quicker to respond than their London counterparts. Closing date is December 19.

# Dispute over Mobil's Canadian acquisition resolved

THE CANADIAN Government and Mobil Oil have resolved a protracted dispute over official approval for Mobil's acquisition of the Canadian assets of Superior Oil, writes Bernard Simon in Toronto.

Miss Pat Carney, Energy Minister, said that in exchange for Government sanction of the takeover, Mobil had agreed to give Canadian investors an opportunity to buy some of its oil and gas properties in western Canada over the next four years and to step up exploration spending in Canada.

The properties to be offered for sale are estimated to be worth about C$350m (US$250.7m). Mobil agreed last month to dilute its interest in oil and gas deposits off Newfoundland and Nova Scotia to ensure Canadian majority ownership.

The dispute with Mobil over the terms of the Canadian Superior acquisition has been one of a handful which has marred efforts by the Progressive Conservative Government to make Canada more attractive to foreign investors since it took office in September 1984.

Although fewer investments are subject to official vetting, the Government has demonstrated as much determination as its predecessors to protect, and if possible increase, Canadian ownership in such sensitive industries as oil and gas.

Ottawa's approval is required for changes in control of foreign companies with assets of more than C$50m. Mobil acquired the US parent of Canadian Superior oils in early 1984.

Miss Carney said Mobil's undertakings reflected the Government's "flexible and balanced" approach to indirect acquisitions in the energy sector. Mobil's Canadian subsidiary is the only integrated oil company in the country wholly owned by foreign interests.

● ALCAN ALUMINIUM has sold its Montreal-based Saguenay Shipping business to Stinnes Investments, a Canadian-owned shipping, marine construction and real estate group which has links with Hugo Stinnes Group of Hamburg, writes Bob Gibbens in Montreal.

Alcan would not disclose the price, but the deal is part of a programme to sell assets not required for its core metals business. Shipping industry estimates put revenues of Saguenay, which has about 13 chartered vessels, at about C$40m a year. No ships are included.

Saguenay began by bringing bauxite from the Caribbean to Alcan's Quebec smelters 125 miles north of Quebec city, taking export ingots back and picking up general cargo. General cargo traffic is now predominant.

Stinnes will expand Saguenay Shipping Services to the Caribbean, Europe and Latin America, complementing them with its existing shipping lines.

# INTERNATIONAL COMPANIES and FINANCE

CORPORATE FINANCE

## How SEK funds at one point below Libor

AMONG THE more closely guarded secrets in the Euromarkets these days are the rates that can be achieved by borrowers who raise fixed-rate money and then swap it into floating-rate debt. Everybody knows the rates are well below Libor, the London interbank offered rate for Eurodollar deposits. The question is: how much lower?

According to Mr Bernt Ljunggren, deputy managing director of Swedish Export Credit (SEK) and an expert in using the swap market, the answer is a surprising full percentage point. This is now the level that SEK expects to reach when it enters the swap market.

"It's not easy. In fact it's very difficult, but I think in the majority of cases we do reach that level," he says. It may also be a level which larger sovereign borrowers cannot hope to emulate because their total needs are much larger and they cannot afford to push the bond market too far.

SEK, which is half state-owned but does not carry a Swedish government guarantee, borrows between $1bn and $1.5bn a year to finance Swedish exports. Since 1980 it has swapped most of its borrowings and has to date carried out some 135 individual swaps.

The advantage of swapping, according to Mr Ljunggren, is that it becomes possible to separate funding and lending activities to the maximum advantage of its customers. SEK can borrow fixed-rate funds when a good market opportunity arises, swap into low-cost floating-rate dollars, put them in the bank at a profit and then swap them back into a fixed-rate currency when they actually need to be lent.

In this way Swedish exporters can be offered five-year fixed-rate dollar financing at rates as low as ¼ point over the US Treasury note rate. But it only works because the swap had been arranged in the first place. SEK could not hope to achieve the same rate if it started off, for example, by borrowing floating-rate funds.

For medium-term needs it does not do so, although it does have about $1bn of borrowings in the US commercial paper market which are used for short-term liquidity needs.

However, Mr Ljunggren says be shares the concerns of major central banks about the hidden credit risks in swap operations. SEK always checks out its counter parties and monitors its swap exposure continuously. It has never had a counter party default.

Paradoxically, he adds, there are situations in which he wishes this would happen. For example, if a counter party (the other borrower which has swapped its debt with SEK) is paying him a stream of fixed-rate interest at, say, 10 per cent, he starts to forfeit money if rates generally rise to 12 per cent.

In that situation it is almost impossible to unwind the swap. But if the borrower did default it could easily be replaced with one paying a higher rate of interest. Conversely, Mr Ljunggren argues, the real credit risk is that a counter party might default when interest rates are falling.

Since SEK started using the swap market, the discounts it has been able to obtain on Libor have widened steadily. Now, however, the market has become more crowded and it may prove harder to keep up this momentum. Also the recent rise of the yen has made it much harder for SEK to raise cheap fixed-rate dollars through private placements in Japan which is the source of some 60 per cent of the borrowings it swaps into floating-rate debt.

On the other hand it will always be possible to swap at a profit so long as investors in the fixed-rate bond market prefer AAA and AA rated credits, while banks in the floating-rate market are less discriminating.

**Peter Montagnon**

## Promising launch for Ecu options in Amsterdam

BY LAURA RAUN IN AMSTERDAM

THE WORLD's first option on the European currency unit (Ecu) has drawn respectable demand in its first two days of trading, fuelling a drive to internationalise by the Amsterdam-based European Options Exchange (EOE).

The Ecu option began trading last Thursday with a volume of 258 contracts, more than the dealings in gold, silver or the D-mark. Although turnover fell sharply the following day, compared with the well-established issues, the launch was promising.

The contract is for Ecu 10,000 and is priced in dollars, with expiry periods of three, six and nine months. Even longer expiry periods are under consideration. The March call option with an exercise price of $84 per Ecu 100 closed on Friday at $4.30.

The Ecu, a basket of nine European currencies, has gained importance in the international capital markets, while an interbank deposit market is developing alongside. It is also enjoying growing popularity as a commercial currency, with France using it to pay for Dutch gas, and as a retail currency, for example to denominate travellers' cheques.

Option contracts—the right to buy or sell a certain amount of underlying value at a specified price during a given period of time—are used primarily to offset risks from movements in underlying value. The London and Philadelphia stock exchanges are expected to introduce Ecu contracts soon and may seek to link their trading so that a position opened in one exchange can be closed in the other, known as fungibility.

The EOE plans to link its Ecu trading with the Montreal Stock Exchange when an identical Ecu/dollar contract is introduced there in the near future, allowing dealings 16 hours a day. Montreal and the EOE already offer the first fungible currency option, a sterling/dollar contract. Along with the Vancouver and Sydney Stock Exchanges, Montreal and the EOE were also the first to create nearly round-the-clock trading in gold and silver options.

Mr Pierre Pflimlin, president of the European Parliament, said on opening day that he hoped the Ecu would soon be quoted on futures markets as well. The London International Financial Futures Exchange is believed to be considering a futures contract on Ecu deposits while the New York Mercantile Exchange is thought to be studying a futures contract on a cash amount.

Last month, the EOE introduced the world's first cross-rate option, a sterling/guilder contract for £10,000 which is priced in guilders.

## Caterpillar to spend $600m on automation

CATERPILLAR TRACTOR of the US is embarking on a four- to five-year $600m modernisation programme to automate its 21 manufacturing facilities worldwide, according to Mr George Schaefer, its chairman, AP-DJ reports from Peoria, Illinois. He added that "the chances for an operating profit in the fourth quarter are pretty good." Caterpillar recorded a $251m loss in its fourth quarter a year ago, which included substantial write-offs.

Caterpillar expects its 1986 capital expenditure to rise by 42 per cent to $320m. Of this, $158m will be used to introduce new technologies in principal manufacturing facilities.

"The payoff will be significant," Mr Schaefer said. He added that because of subsequent cost savings the modernisation programme should pay for itself.

Currently the company purchases 16 per cent of its parts from overseas producers. Mr Schaefer expects that to increase to about 25 per cent by the end of 1987.

He expects reductions in the white-collar workforce of as much as 5 per cent in 1986 from its current level of 22,750, but only a "slight" reduction of blue-collar workers.

Mr Schaefer said that since no major growth is expected in the heavy construction equipment market, the company is looking at other markets.

## Breakthrough in Manville asbestos claim wrangle

BY TERRY DODSWORTH IN NEW YORK

LAWYERS have resolved one of the main hurdles to a resolution of the long legal wrangle between Manville, once the world's leading asbestos producer, and thousands of victims of asbestos-related illnesses in the US.

The agreement between the company and Mr Leon Silverman, a lawyer representing future plaintiffs for health-related claims, marks a significant breakthrough in the bitter litigation in the case, one of the largest ever fought over product liability in the US.

If other less pressing claims against the company can be resolved by the deadline of January 22 established by the courts, Manville may be able to emerge next year from Chapter 11 bankruptcy proceedings.

In August 1982 the company filed to protect itself from its creditors while the asbestos claims were being heard. At that time it was regarded as financially sound, but was facing more than 16,000 individual damages claims from victims demanding more than $12bn in total. This was to be in compensation for illnesses caused by exposure to asbestos.

Although Mr Silverman has not released details of the settlement plan, it is believed to incorporate elements of previous proposals aimed at providing $2.5bn for present and future asbestos victims. A further $125m or more is likely to be allocated for property damage caused to organisations — particularly schools — which have had to remove asbestos insulation from their buildings.

It is not clear yet how creditors and shareholders will respond to the proposed settlement, but there may be objections from both groups since they stand to lose heavily if the suggested terms are agreed.

## Viacom buys CBS TV station

VIACOM INTERNATIONAL, the US media and cable television group, is taking a new expansionary step with the acquisition of a St Louis television station from CBS—a move widely seen as a further attempt to make itself less vulnerable to takeover, writes Terry Dodsworth in New York.

The $122.5m deal follows proposals for a 2.5m share issue, and comes amid speculation of a possible bid for Viacom because of interest shown by several investment groups. Expanding the size of the business, which has been growing rapidly through acquisition this year, is regarded as a means of increasing its cost to a predator.

## NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book Runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **U.S. DOLLARS** | | | | | | | |
| Ajinomoto ¶‡ | 80 | 1990 | 5 | 5⅜ | 100 | Nikko Secs (Europe) | 5.375 |
| Ajinomoto ¶‡ | 40 | 1990 | 5 | 5⅜ | 100 | Daiwa Secs. | 5.375 |
| Citicorp ‡ | 150 | 1989 | 3 | 9⅜ | 101¼ | Goldman Sachs | 8.882 |
| IADB ‡ | 200 | 1995 | 10 | 9⅞ | 100 | Morgan Guaranty | 9.875 |
| Samsung Electronics §‡ | 20 | 2000 | 15 | 5 | 100 | SG Warburg | 5.000 |
| Textron ‡ | 100 | 1990 | 12 | 10¾ | 99½ | Kidder Peabody | 10.826 |
| GMAC ‡ | 200 | 1993 | 7 | 5¾ | 100 | Morgan Stanley | 5.750 |
| Italex (c) †‡ | 230 | 1992 | 4¾ | ½ | 100 | Morgan Grenfell | – |
| Dart & Kraft ⏀‡ | 100 | 1996 | 10 | 10¼ | 101½ | Morgan Stanley | 10.006 |
| Monsanto ⏀‡ | 100 | 1991 | 5 | 9¾ | 100½ | Merrill Lynch | 9.610 |
| **CANADIAN DOLLARS** | | | | | | | |
| Crysler Fin (US) ‡ | 75 | 1993 | 7 | 11 | 100¼ | Orion Royal Bank | 10.947 |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Bell Group § | 75 | 1095 | 10 | (10-11) | 100 | SBCI | • |
| NordLB Finance ‡ | 50 | 1991 | 5 | 14 | 100 | Bankers Trust Int | 14.000 |
| Unilever ‡ | 75 | 1989 | 3 | 14¼ | 100 | Bankers Trust Int | 14.250 |
| WestLB Finance ‡ | 50 | 1991 | 5 | 14 | 100 | WestLB | 14.000 |
| **NEW ZEALAND DOLLARS** | | | | | | | |
| Bqe Paribas (Lux) ‡ | 40 | 1988 | 3 | 18 | 100¾ | Banque Paribas | 17.657 |
| **D-MARKS** | | | | | | | |
| Daikyo Kanko §‡ | 120 | 1991 | 5¼ | 2¾ | 100 | Commerzbank | 2.750 |
| Credit Suisse Fin. ¶‡ | 150 | 1995 | 10 | 2⅝ | 100 | CSFB-Effectenbank | 2.625 |
| VW Int Fin ¶‡ | 250 | 1995 | 10 | 3 | 100 | Deutsche Bank | 3.000 |
| CPC Int ‡ | 200 | 2001 | 10 | 6¾ | 100 | DG Bank | 6.750 |
| IADB** ‡ | 150 | 1995 | 15 | 7⅛ | 99¾ | Bayerische Vereinsbk | 7.151 |
| World Bank ‡ | 1bn | 2015 | 30 | 0 | 13.0 | Deutsche Bank | 7.037 |
| Maruzen Showa Unyu ¶ | 25 | 1990 | 5 | (3) | 100 | CSFB-Effectenbank | • |
| Asko Finance ¶‡ | 150 | 1993 | 7 | 3 | 100 | Deutsche Bank | 3.000 |
| Fin Ins Danish Ind (e) †‡ | 100 | 1991 | 5 | ¼ | 100 | Commerzbank | – |
| **SWISS FRANCS** | | | | | | | |
| People Express §‡ | 150 | 1996 | – | 5½ | 100 | Bqe Paribas (Suisse) | 5.576 |
| Mitsui Mining Co **¶‡ | 60 | 1990 | – | 2⅞ | 100 | UBS | 2.875 |
| NZ Railway Corp (a) ‡ | 150 | – | – | 5¾ | 99½ | Kredietbank (Suisse) | – |
| Tokyu Hotel Chain **§‡ | 30 | 1991 | – | 2¼ | 100 | Swiss Volksbank | 2.250 |
| Sankyo Aluminium **¶‡ | 80 | 1990 | – | 2⅞ | 100 | B della Svizz Italiana | 2.875 |
| EIB ‡ | 200 | 1999 | – | 5⅜ | 99¾ | Credit Suisse | 5.408 |
| Co Op **‡ | 80 | 1991 | – | 6 | 100 | Fuji Bank (Schweiz) | 6.000 |
| Daiko Kanko **¶‡ | 50 | 1090 | – | 2⅞ | 100 | UBS | 2.875 |
| IADB **‡ | 150 | 1992 | – | 5½ | 99¾ | Bank Leu | 5.544 |
| Nissin Sugar Mfn ¶ | 50 | 1990 | – | (3) | 100 | Banca del Gottardo | • |
| Yazaki Corp **‡ | 20 | 1990 | – | 5½ | 100 | Wirtschafts- und Privatbk | 5.500 |
| Philip Morris **‡ | 214 | 1992 | – | 5⅛ | 99¾ | UBS | 5.168 |
| Atsugi Nylon Ind **§ | 80 | 1991 | – | (2⅛) | • | SBC | • |
| Saibuya Co **‡ | 20 | 1990 | – | 5½ | 100 | UBS | 5.500 |
| **ECUs** | | | | | | | |
| Brown Shipley ‡ | 30 | 1994 | 8 | 9⅛ | 100 | BGL | 9.125 |
| Parbel Finance ‡ | 50 | 1989 | 3½ | 8⅝ | 101 | Banque Paribas | 8.255 |
| **STERLING** | | | | | | | |
| J. Sainsbury (a)‡ | 60 | 1993 | 7 | 10⅞ | 100 | SG Warburg | 10.875 |
| Anglia Bld Soc (b) †‡ | 100 | 1998 | 12 | ⅛ | 100.05 | Morgan Guaranty | – |
| EIB (d) ‡ | 50 | 1996 | 10 | 10½ | 98½ | Baring Brothers | 10.752 |
| **GUILDERS** | | | | | | | |
| EEC ‡ | 150 | 1998 | 9 | 7¼ | 100 | ABN | 7.250 |
| **YEN** | | | | | | | |
| OIAG ‖‡ | 22bn | 1995 | 10 | 6¼ | 101¼ | Nomura Int | 6.063 |
| Swedish Ex Cr ‖‡ | 20bn | 1999 | 10 | 8 | 101½ | Yamaichi Int (Eur) | 7.779 |
| Ville de Montreal ‡ | 10bn | 1995 | 9 | 6⅞ | 101⅞ | Bank of Tokyo Int | 6.667 |

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ⏀ With bond warrants. ‖ Dual currency. (a) Additional £40m tap for 1 yr. (b) ⅛ over 3m Libor. (c) ⅛ over 6m Libor. (d) Additional £25m tap. (e) ¼ over 6m Libor, maximum coupon 7¾%. Note: Yields are calculated on AIBD basis.

# INTERNATIONAL CAPITAL MARKETS

## US MONEY AND CREDIT

# Balanced budget deal gives bonds a fillip

ON FRIDAY, congressional negotiators finolly delivered what the bond markets hove long been waiting for—agreement in principle on a compromise version of the Gramm-Rudman bill which would require a baloneed budget by fiscal 1991.

Progress on the compromise package—which still faces a number of crucial hurdles—will be carefully watched in the markets. Although the bill would leave this year's yawning Federal budget deficit virtually untouched, it could set the stage for a shift in market psychology.

"This legislation's importonce is its tempering of the market's justified long-term inflation fears," says Mr Phillip *Braverman of Briggs Schaedle.*

News of the agreement gave US bond prices a fillip in quiet late trading on Friday, but not enough to wipe out earlier price declines. *As a result bond* prices closed slightly lower on the week—breaking a two-month rally.

The new Treasury long bond *closed ⅛ point lower at 100⅛* to yield 9.86 per cent, up from 9.84 per cent a week earlier. Other Treasury bond prices were lower by up to ½ point. But despite last week's hiccup long bond yields are now 40 to 60 basis points lower than before the rally began.

In contrast, short-term Treasury bill and other money market rates moved higher last week. Short-term taxable rates were generally 5 to 15 basis points firmer by Friday's close. As e result the Treasury yield curve continued to flatten to around 240 basis points from its 1985 peak in October of 351 basis points.

The firming in short-term rates in part reflected the stubbornly high Fed funds rate which stayed over the 8 per cent level despite repeated generous additions of reserves by the Fed, mainly through system repurchase agreements.

"The Federal Reserve continues to accommodate the banking system's apparent need for reserves over and above already substantial seasonal demands," says Dr Henry Kaufman of Salomon Brothers. Dr Kaufman and others suggest the banks' recent heavy demands for excess reserves relate to recent settlement problems at a major bank and adds, "The Federal Reserve's massive accommodation of those needs through an outright purchase of bills indicates its desire to cap these pressures."

Bnt for the most part senior Wall Street economists warn that these actions should not be mistaken for e change in the Fed's stance, and continue to suggest that it is holding to a stable, but accommodative, monetary policy.

Rumours that the Federal Reserve Board was meeting in Washington on Wednesday resulted in feverish speculation about a possible discount rate cut. When nothing happened the market retreated and short rates moved higher.

In fect many Fed watchers now believe thet the immediote prospects of a discount rate cut have receded, although most still expect a reduction from the current 7.5 per cent level eerly next year.

Two main factors explain this shift. First, economists believe that the sharp decline in the dollar's value—and Fed concerns about a precipitous fall—preclude an early Fed easing. Second, the economic signals remain fixed.

Last week economic statistics showed a further decline in unemployment, rising manufacturing employment and higher purchasing managers and help-wanted indices. On the other hand, November domestic car sales fell sharply, October new house sales declined by 5.5 per cent and factory orders dropped by 1.1 per cent.

The 0.3 per cent gain in the October leading economic indicators—although the sixth rise in a row—was smaller than expected, even though Mr Malcolm Baldrige, the Commerce Secretary, hailed it as "consistent with the recent pick-up in overall economic growth."

The bond markets also took heart from the latest comments of Mr Preston Martin, the Fed vice chairman—and from the Fed's move to curb the use of debt securities in corporate takeovers.

Mr Martin indicated again that the Fed would continue to disregard M1 as unreliable—good news, particularly since the narrow monetary measure appears to have resumed its above-target upward trek with a $4.4bn jump in the latest statement week.

Mr Martin also told his audience that the Fed would do its part to keep the US economy growing.

This week's crop of economic statistics include retail sales on Thursday followed by November producer price and industrial production figures.

**Paul Taylor**

**U.S. MONEY MARKET RATES (%)**

| | Last Friday | 1 week ago | 4 wks ago | —12-month— High | Low |
|---|---|---|---|---|---|
| Fed Funds (weekly average) | 8.44 | 7.98 | 8.22 | 8.77 | 7.10 |
| Three-month Treasury bills | 7.25 | 7.15 | 7.23 | 8.76 | 6.67 |
| Six-month Treasury bills | 7.32 | 7.25 | 7.27 | 9.20 | 0.81 |
| Three-month prime CDs | 7.95 | 7.90 | 7.83 | 9.40 | 7.33 |
| 30-day Commercial Paper | 7.90 | 7.00 | 7.85 | 8.95 | 6.96 |
| 90-day Commercial Paper | 7.90 | 7.75 | 7.75 | 9.20 | 7.00 |

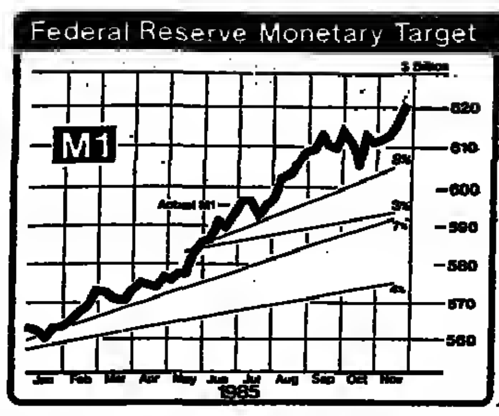
**U.S. BOND PRICES AND YIELDS (%)**

| | Last Friday | Change on week | Yield | 1 week ago | 4 wks ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 101⅛ | — | 0.48 | 9.45 | 8.70 |
| 20-year Treasury | 105¾ | −⅛ | 10.00 | 10.05 | 70.22 |
| 30-year Treasury | 100⅛ | −⅛ | 0.86 | 9.84 | (new) |
| New 10-year "A" Financial | N/A | −⅛ | 10.40 | 10.38 | 10.50 |
| New "AA" Long utility | N/A | −⅛ | 11.00 | 10.95 | 11.13 |
| New "AA" Long industrial | N/A | −⅞ | 10.85 | 10.75 | 11.00 |

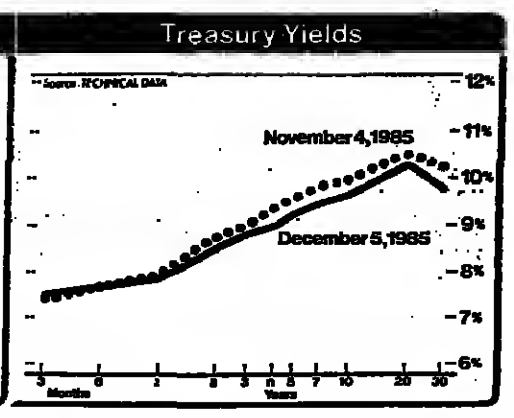
Source: FT estimates and Solomon Bros.

*Money Supply: In the week ended December 9 M1 rose by $4.4bn to $618.6bn.

Federal Reserve Monetary Target




Treasury Yields




# FT/AIBD INTERNATIONAL BOND SERVICE

| US DOLLAR STRAIGHTS | Issued | price | Chg. on week | Yield |
|---|---|---|---|---|
| AHFC O/S Fin 11¾ 94 | 100 | 100⅝ | +0⅛ | 10.47 |
| AIOC 11 89 | 75 | 104⅛ | +0⅛ | 9.40 |
| AIOC 11⅞ 90 | 100 | 101⅛ | 0 | 11.41 |
| Amer Savings 12 99 | 125 | 103⅜ | −0⅛ | 10.56 |
| [illegible] | | | | |
| Newfoundland 13 91 | [illegible] | [illegible] | [illegible] | [illegible] |
| Nippon Crd Bk 13⅞ 89 | 100 | 111⅛ | −0⅛ | 9.79 |
| Nippon Tel Tel 11⅛ 90 | 100 | 107⅞ | +0⅛ | 8.01 |
| Nippon Tel Tel 13⅞ 94 | 150 | 113 | 0 | 10.55 |
| Nissho-Iwai 6⅛ 89 | 70 | 102 | +1 | 5.78 |
| Nomura 6⅞ 88 | 100 | 153⅛ | −0⅛ | −6.96 |
| Nova Scotia 11¾ 91 | 100 | 104⅞ | +0⅛ | 10.55 |
| Nova Scotia 11⅛ 96 | 100 | 106⅛ | +0⅛ | 10.72 |
| Oester Post 12⅛ 89 | 75 | 106⅛ | −0⅛ | 9.88 |
| Ohbayashi-Gumi 7⅛ 89 | 50 | 155 | −2 | −6.43 |
| Ontario Hydro 11⅛ 94 | 200 | 109⅛ | −0⅛ | 9.91 |
| Ontario Hydro 11⅛ 90 | 200 | 108⅛ | −0⅛ | 9.45 |
| Ontario 12⅛ 94 | 250 | 113⅛ | +1 | 10.29 |
| Pacific Gas & El 12 00 | 75 | 105⅛ | +0⅛ | 11.20 |
| Penney J C 11⅛ 90 | 100 | 104⅛ | −0⅛ | 10.62 |
| Penney J C 12⅛ 91 | 100 | 108⅛ | −0⅛ | 10.69 |
| Philips Petrol 14 89 | 200 | 103 | −0⅛ | 12.78 |
| Postbanken 11⅛ 90 | 75 | 110⅛ | 0 | 10.05 |
| Post-Och Kred 13½ 87 | 50 | 106⅛ | −0⅛ | 9.24 |
| Privatbanken 12⅛ 95 | 100 | 89 | 0 | 12.92 |
| Prudential Ins 12⅛ 87 | 150 | 106⅛ | +0⅛ | 8.91 |
| Pru Rlty Secs 0 99 | 365 | 28⅛ | −0⅛ | 10.09 |
| Pru Rlty Secs 11⅞ 92 | 386 | 105⅛ | −0⅛ | 10.12 |
| Pru Rlty Secs 12⅛ 95 | 546 | 109⅛ | +0⅛ | 10.34 |
| Quebec Prov 12⅛ 94 | 150 | 109⅛ | −0⅛ | 10.36 |

| | Issued | Price | Chg. on week | Yield |
|---|---|---|---|---|
| Queensland Gvt 11⅛ 89 | 100 | 105⅞ | −0⅛ | 9.55 |
| RBC 12⅛ 90 | 100 | 102 | 0 | 12.08 |
| Rural Bk Aust 12 91 | 00 | 105⅛ | +0⅛ | 10.64 |
| Sanwa Bank 11⅞ 92 | 150 | 106⅛ | −0⅛ | 10.11 |
| Saskatchewan 10⅛ 92 | 100 | 104⅛ | −0⅛ | 9.76 |
| [illegible] | | | | |
| Spain ⅛ 97 | 250 | 100⅛ | 0 | 8⅛ |
| Standard Chart ⅛ 94 | 200 | 100⅛ | 0 | 8⅛ |
| Sumitomo Trust ⅛ 94 | 100 | 100⅛ | 0 | 8⅛ |
| Sweden ⅛ 99 | 500 | 99⅛ | 0 | 8⅛ |
| Sweden 0 90 | 700 | 99⅛ | 0 | 7⅛ |
| Sweden ⅛ 24 | 500 | 10⅛ | +0⅛ | 8⅛ |
| Sweden ⅛ | 750 | 100 | 0 | 8⅛ |
| Tokai Asia ⅛ 89 | 160 | 100⅛ | 0 | 8⅛ |
| Toyo Trust Asia ⅛ 96 | 100 | 100⅛ | +0⅛ | 8 |
| TVO Power ⅛ 04 | 100 | 98½ | +0⅛ | 8¼ |
| Union Bank-Norw ⅞ 99 | 50 | 88 | 0 | 8⅛ |
| United Kingdom 0 92 | 3bn | 99⅞ | 0 | 8⅛ |
| Wells Fargo ⅛ 88 | 50 | 99½ | +0⅛ | 8⅛ |
| World Bank ⅛ 94 | 250 | 98⅞ | 0 | 7⅛ |
| Yorkshire Inl ⅛ 94 £ | 75 | 100½ | 0 | 11⅛ |

| CONVERTIBLE BONDS | Issued | Price | Chg. on week | Prem. |
|---|---|---|---|---|
| Ajinomoto 3 99 | 120 | 125⅛ | 0 | |
| Best Denki 5⅛ 97 | 1b | 187⅞ | +0⅞ | −3.53 |
| Canon 7 97 | 60 | 228⅛ | +8⅛ | −4.99 |
| Daiwa Secs 5⅛ 98 | 60 | 210⅛ | −2⅛ | 0.63 |
| Dev Bank Sing 5½ 89 | 70 | 72 | −2 | 13.43 |
| Elders 11⅛ 94 | 160 | 107⅛ | +0⅛ | 51.22 |
| Elektrowatt 5 89 | 52 | 124 | +2 | −5.97 |

| | Issued | Price | Chg. on week | Yield |
|---|---|---|---|---|
| Fujitsu 3 99 | 180 | 100⅛ | +1⅛ | −2.00 |
| Intec Inc 3 89 | 00 | 97½ | −0⅛ | 22.79 |
| Kumagai Gumi 3½ 00 | 80 | 171⅛ | +8⅛ | 2.82 |
| LASMO 9⅛ 89 | 44 | 95 | −2½ | 27.41 |
| Moet-Hennessy 7 88 | 50 | 137⅛ | +8 | −0.50 |
| Murata Mfg 3½ 00 | 100 | 122⅛ | +2⅛ | 1.25 |
| Nippon Oil 3⅛ 98 | 50 | 97 | +5½ | 9.83 |
| Ono Pharm 3⅛ 98 | 00 | 97½ | +4 | −0.10 |
| Soc Gen Surv 4½ 94 | 51 | 140⅛ | −1⅛ | 111.43 |
| [illegible] | | | | |
| TC Industries | [illegible] | 26⅛ | +1 | −18.75 |
| Jusco | 22/12/88 | 90⅛ | +1 | 11.14 |
| Minebea Co | 20/2/89 | 62⅛ | 0 | 68.13 |
| Mitsubishi Co | 7/11/88 | 37 | +2⅛ | 31.90 |
| Mitsui | 10/12/87 | 26⅞ | −0⅛ | 23.07 |
| Nissho Iwai | 1/2/89 | 13⅛ | 0 | 36.35 |
| Nomura | 31/10/88 | 65⅛ | +1 | 13.99 |
| Swiss Bank Cpn | 20/12/88 | 108⅛ | +1½ | 22.30 |
| Tomy Ind | 0/3/87 | 33⅛ | −2⅛ | 15.91 |
| Vaba Intnl | 16/12/93 | 57 | 0 | −3.72 |

| BOND WARRANTS | Expiry date | Price | Chg. on week | Ex. yield |
|---|---|---|---|---|
| Aegon Ins 11⅛ 91 | 14/2/88 | 43⅞ | 0 | 10.22 |
| Coca-Cola 11⅛ 91 | 28/11/88 | 57⅛ | 0 | 11.10 |
| Commerzbk 13⅛ 91 | 17/7/88 | 113⅛ | 0 | 10.78 |
| Du Pont 13⅛ 89 | 25/8/86 | 91⅞ | 0 | 10.12 |
| Eksportfinas 13⅛ 89 | 15/9/81 | 93½ | 0 | 10.11 |
| Gen Elec 13⅛ 91 | 7/8/87 | 79⅛ | −0⅛ | 10.78 |
| Ind Bk Jpn 12⅞ 91 | 5/10/80 | 95⅞ | 0 | 10.58 |
| Inv In Inds 10⅞ 91 | 1/12/88 | 85 | 0 | 10.11 |
| McDonlds F 11⅞ 94 | 6/1/89 | 56⅞ | +0⅛ | 10.06 |
| Oester Lnbk 13½ 89 | 8/8/87 | 93⅞ | +0⅛ | 10.28 |
| Texaco Cap 12⅞ 92 | 1/9/87 | 48⅛ | −9⅞ | 11.18 |
| Trnio Dom 12⅞ 91 | 5/4/88 | 81⅞ | +0⅞ | 10.56 |

*STRAIGHT BONDS:* Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
*FLOATING RATE NOTES:* US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.
*CONVERTIBLE BONDS:* US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
*WARRANTS:* Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.
† Perpetual.

Closing prices on December 5.



## UK GILTS

# Rise in bill mountain to £20bn forecast

THE END of overfunding—selling more gilts than needed to fund the public sector borrowing requirement—might have been expected over time to turn the *Bank of England's* prodigious bill mountain into a mere molehill.

Over the next two months, however, shortages of liquidity in the money market are expected to become very severe, more than reversing the diminution in the bank's bill holdings seen since the summer.

The increase is likely to renew what has been at times an acrimonious debate between the Bank and clearing banks over its methods of injecting liquidity. It could also join a series of factors which seem now to be arguing against a near-term cut in base rates from 11½ per cent. Others are forecasts of lower oil prices and anxiety that, with bank lending likely to rise, market perceptions of lax monetary policy might be fostered.

The bill mountain consists of commercial bills bought by the Bank from discount houses in order to cover shortages of liquidity experienced from day to day in the money markets. When the Government borrows more than it needs—as it did for several years in order to restrain growth of £M3 money *supply—liquidity is* drained from the money markets, and the Bank must offset the shortage.

The soaring bill mountain resulting from overfunding created persistent problems in liquidity management. Bill purchases were not sufficient, and the Bank resorted to repurchase agreements against gilts and other securities which, though intended to be temporary, have turned out to be virtually permanent.

Banks object to repurchases because paper is tied up which they could otherwise be trading. Their dislike will probably intensify in 1986 amid heightened competition between the increased number of gilts market-makers.

Earlier in the financial year the Government was under funding. In addition, local authorities were urged officially to switch borrowings away from the money markets.

These two factors accounted for a drop of £2bn or so in the overall bill mountain—bill holdings plus repurchases. Phillips & Drew estimates it at £15bn, comprising £13bn of bills and £2bn of repurchases.

*But* pressures are re-emerging. Repurchases have been partially unwound. Under funding has been compensated by overfunding. The recent convertible stock, absorbing £400m, may have sold out more quickly than the authorities expected. The Cable and Wireless share issue will attract about £1bn. A Christmas rise in notes and coins in circulation will drain liquidity from the banking system.

Then comes the biggest squeeze, with corporate and other tax payments due in January and expected to be particularly heavy. The result, according to Phillips & Drew, is likely to be a rise in the overall bill mountain to as much as £20bn.

The stockbroker says bills maturing in official hands are likely to hamper the Bank's execution of money market intervention policies. "There could also be scope for companies to engage in 'arbitrage' operations which would tend to undermine monetary control."

Among such arbitrage is "round-tripping" — sale of bills by companies at high prices because of the demand for them, and reinvestment of the proceeds in banks at higher yields, locking in easy and risk-free profit.

The authorities believe opportunities for arbitrage are quickly ironed out, and that round-tripping does not undermine monetary policy.

Though most factors affecting liquidity are seasonal and technical, banks may be reluctant to cut base rates.

Last Monday, sterling's brief rise above $1.50 encouraged the market to believe base rates might be cut and therefore they should hold on to bills. The Bank was forced to provide £820m of "late assistance."

Grieveson Grant says hanging on to bills may be wise even though a base rate cut is unlikely. The Bank will find it hard to buy enough bills to relieve shortages, and consequently might have to pay more for them by making "technical reductions of its buying rates."

**Alexander Nicoll**

# UK COMPANY NEWS

# Chetwynd Streets offers 23% of equity at 120p

THE PROSPECTUS is published today for an offer for sale of shares in Chetwynd Streets, the advertising and public relations group.

Morgan Grenfell is offering 2.4m shares, representing 23 per cent of the equity, at 120p to value the company at £12.7m. About 1m of the shares are being sold by past and present employees, while the remainder will raise £1m for the company after expenses.

The flotation had originally been planned for June, but was delayed while the company considered a £11m bid from Saatchi and Saatchi, the advertising agency. The bid was rejected on the grounds that it was in the interests of neither the company, its clients, nor its shareholders.

The group's activities are divided into four parts: consumer, financial, business-to-business (where one company sells to another) and management services. The consumer division, traditionally the focus of the group, consists primarily of Chetwynd Haddons, a consumer advertising agency, which has billings of about £20m and a client list including C & A, Ford Motor Company, Kodak and Mercury Communications. A subsidiary company, Creative Link was formed last year to specialise in consumer design and sales promotion.

In the City, Chetwynd Streets is known mainly for the financial PR of its subsidiary Streets Financial. However, that company is also engaged in financial advertising, and its clients include 150 listed companies. Last year financial advertising billings were £10.5m, and PR fee income was £1.1m.

The group's problem division is its business-to-business advertising, which has made losses in recent years. However, management changes have now been made, and company views this division as a "recovery situation."

Management services, which forms the smallest part of the group, specialises in advertising senior and middle management jobs.

Chetwynd Streets has existed in its present form since 1980, since when it has grown both organically and by acquisition. From £335,000 in 1981, profits before tax grew to £882,000 last year. For the present year, the company is forecasting profits of not less than £1.3m.

At the offer price, the shares are on a prospective p/e ratio of 16 after a tax rate of 47 per cent, and the yield is 2.5 per cent.

Application lists open at 10 am on December 12, and dealings start on December 18. Brokers to the issue are de Zoete & Bevan.

**● comment**

The directors of Chetwynd Streets clearly have every confidence in the future of their company. There was no immediate financial gain to be made by shunning Saatchi's approaches and going ahead with the flotation as the value of the company at the offer price is exactly what Saatchi was prepared to pay. They may well have made the right decision: prospects for an independent Chetwynd Streets look bright. It is well respected in both its main areas, consumer and financial, and the depth of its experience in the rapidly growing financial area inspires some confidence. The group's plans to expand into related areas scarcely distinguish it from the crowd, as everyone else in the sector seems to be doing likewise. With £2m on deposit, the £1m being raised by the offer seems a little excessive, unless the company has a fixed expansion plan already up its sleeve. However, the issue price seems broadly in line with the rest of the sector and should allow room for a small premium when dealing start.

## COMPANY NEWS IN BRIEF

TR NORTH AMERICA Investment Trust absorbed 13.9 per cent depreciation of dollar against sterling in half year ended September 30 1985. Total revenue £1.58m (£1.76m) and net revenue £511,000 (£673,000) for earnings of 0.78p (0.88p). Interim dividend 0.5p net (same after scrip issue) and total of not less than 1.85p (1.825p) forecast. Net asset value 102.4p per share (113.4p at March 31 and 105.4p six months' earlier) after prior charges at par. Of portfolio 81.8 per cent in US and 12.1 per cent in Canada.

EQUITY CONSORT Investment Trust raised net asset value to 408p (362p) per ordinary share and to 617p (523p) per deferred share, as at October 31 1985. Pre-tax revenue for the six months was £539,317 (£491,236). Earnings were 10.17p (9.25p) per ordinary share and 14.35p (12.52p) per deferred share. The ordinary interim dividend is unchanged at 3.5p net and a final not less than 8.05p (7.7p) is forecast.

HARDANGER PROPERTIES, developer and builder, has increased profits by £580,000 to £2.61m in the year ended September 30 1985 on turnover ahead at £9.33m against £7.45m. A final unchanged dividend of 7p will make a total of 9.8p (same) with earnings per share at 27.8p (31.5p) on increased capital.

TRANS - OCEANIC TRUST earned 3.96p (3.38p) per ordinary share in year ended October 31 1985, and paying dividend of 3.85p (3.2p) with final of 2.65p. Total revenue £2.61m (£3.77m) less expenses and interest £376,000 (£1.96m) and tax £786,000 (£676,000), leaving net revenue £1.45m (£1.24m). Asset value at October 31 was 193.5p (193.2p).

JERMYN INVESTMENT reports an increase from £33,941 to £60,240 in net income for half year ended July 31 1985, including net profit on disposal of fixed assets investments £64,604 (£34,410). Tax charged was £25,820 (£14,500). Earnings 6.02p (3.39p) per share. At July 31 portfolio of listed investments had market value of £1.16m.

LONDON AND Midland Industrials proposes early repayment of the £380,348 of 8½ per cent debenture stock 1989-94. Repayment is planned for December 30 on the basis of £100 cash for each £100 nominal stock.





## FINANCIAL TIMES STOCK INDICES

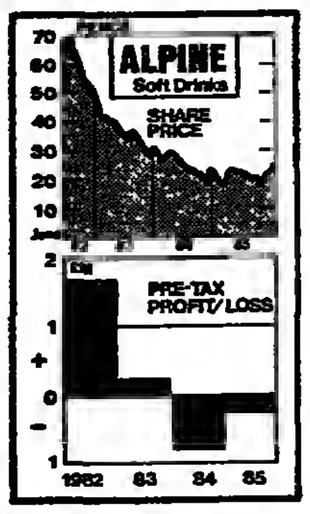
| | Dec. 6 | Dec. 5 | Dec. 4 | Dec. 3 | Dec. 2 | Nov. 29 | 1985 High | 1985 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 83.35 | 83.43 | 83.79 | 83.59 | 83.96 | 83.81 | 84.87 | 78.02 | 127.4 | 49.18 |
| Fixed Interest | 89.07 | 89.19 | 89.33 | 89.18 | 89.38 | 89.38 | 90.88 | 83.17 | 150.4 | 50.53 |
| Ordinary | 1117.6 | 1110.4 | 1115.8 | 1128.9 | 1124.4 | 1142.9 | 1146.9 | 911.0 | 1146.9 | 49.4 |
| Gold Mines | 276.8 | 277.9 | 276.3 | 270.8 | 272.7 | 285.8 | 536.9 | 257.2 | 734.7 | 43.5 |
| FT-Act All-Share | 679.09 | 675.97 | 679.76 | 685.29 | 686.03 | 696.68 | 702.06 | 591.86 | 702.06 | 61.92 |
| FT-SE100 | 1401.9 | 1395.3 | 1399.9 | 1415.6 | 1416.5 | 1439.1 | 1455.5 | 1206.1 | 1456.3 | 986.9 |

# Alpine Soft Drinks up to £0.23m at midway

Alpine Soft Drinks, which makes sparkling drinks for sale direct to customers at their homes, increased pre-tax profits from £102,000 to £230,000 for the half year to September 28, 1985. The improved performance arose largely from an increase in selling prices.

Volumes were down by 12 per cent and were affected by several factors which included the poor summer weather and increased competition in Scotland.

Turnover came to £7.51m, compared with £8.13m in 1984 which also included sales from the




Portsmouth and Aldershot distribution depots and the shop trade business that were subsequently sold.

Volume sales continue to be under great competitive pressure, the company states. However, efforts are being made to improve customer service and more products are being introduced to increase profitability.

Measures have been taken to strengthen the management team in Scotland.

After tax of £92,000 (£39,000) half year earnings per 10p share climbed from 0.61p to 1.34p. The interim dividend is unchanged at 0.6p net—last year's total payment was 1.8p on pre-tax losses of £272,000.

## Euston Centre interim advance

Euston Centre Properties raised pre-tax profits from £3.11m to £3.99m in the six months to September 30 1985. Net revenue from properties was £4.47m, against £3.83m last time which excluded £325,000, being the additional rent, less expenses, on the Euston Tower rent review, not agreed at the date of the interim statement.

The company's "A" shares are held by Stock Conversion and Investment Trust and its "B" shares by British Land.

## Hay & Robertson returns to profit

Hay & Robertson, the canvas and textile manufacturer, has managed to earn a small pre-tax profit of £4,795, against a loss of £10,234, on turnover considerably higher at £415,384, compared with £154,909, for the year to end-May, 1985. All the ordinary shares are privately held.

## F.T. Share Information

The following securities have been added to the Share Information Services:

Continental Assets Trust (Section: Investment Trusts).
Fairbriar (Buildings).
Questel (Electricals).
St. Ives Group (Paper, Printing and Advertising).





# BET extends offer for SGB

BY MARTIN DICKSON

BET, the diversified services group, has extended its offer for SGB, the scaffolding group, until December 20 after receiving acceptances covering 15.1 per cent of shares by its first closing date, last Friday.

That, together with the 6.2 per cent held by BET before it launched its bid, and the 2.9 per cent it has bought since, means that it now speaks for 24.2 per cent of SGB's equity.

Meanwhile C. H. Beazer, the building group, has sold its 4.9 per cent stake in SGB at a price of 258p a share, which is believed to have netted Beazer a profit of slightly over £2m after expenses.

Beazer launched a tender offer for 25 per cent of SGB's shares in October, but BET then pre-empted this by launching a bid of its own.

Beazer's stake is thought to have been placed with a single client of W. Greenwell which are brokers to SGB.

Mr Nicholas Wills, chief executive of BET, claimed that the level of acceptances by the first closing date was "unusually high, despite SGB's last desperate bid to delay matters by issuing a highly speculative and premature profits forecast."

However, SGB replied that its forecast of a 33 per cent pre-tax profits rise in the year to next September was not speculative. It had been carefully vetted by the company's auditors and BET's remarks showed that it did not understand SGB's business.

SGB's share price has remained below the value of BET's three-for-four share offer, which is worth 272p on the basis of Friday night's closing prices. SGB closed on Friday at 256p.

## SHARE STAKES

Changes in company share stakes announced over the past week include:—

Pentland Industries—A. J. De Keyser, director, and his wife together sold a total of 40,000 shares.

Laing Properties—J. J. Bevis, director, acquired 15,000 ordinary at 182p and now holds 21,234 shares.

Smith Bros—A. S. Abrahams, director, disposed of 25,000 ordinary at 190p and now holds 15,595 (0.09 per cent).

GRA Group—M. F. Sanderson, director, has sold 350,000 ordinary shares.

Stock Conversion—The following directors were granted options at 530p: J. W. Campbell 34,750; A. V. C. Astley 20,000; J. S. Lane 20,000; T. A. F. McGee 20,000; A. W. Woods 20,000.

Windsor Securities Holdings—Channel Hotels and Properties increased holding in company to 1.176m ordinary (15.14 per cent).

Thurgar Bardex—A. Collin, director, acquired an additional 35,000 shares and now holds 285,750.

Alphameric—H. E. Fitzgibbons, director, disposed of 10,000 ordinary shares at 122p and now holds 100,000 (0.71 per cent).

New Cavendish Estates—J. V. Everritt, chairman, sold 50,000 ordinary shares.

Argyll Group—G. E. Walker, director, bought warrants to subscribe for 25,000 ordinary shares.

Crest Nicholson—R. St J. H. Lewis, director, sold 17,500 ordinary shares at 132p.

Sunleigh Electronics—Cleves Investments, licensed dealer in securities, has acquired 1,718,985 shares from Mr N. Buckhalter and 1,718,985 from Mr J. Samuels and his family, totalling 3,437,971 shares (14.99 per cent).

## BOARD MEETINGS

TODAY

Interims—Blyvooruitzicht Gold Mining, Caffyns, F & G Alliance Investment, Hazlewood Foods, G. F. Lovell, Lysander Petroleum, Allred Preedy, Property Holding and Investment Trust, Stock Conversion, Tiphook, Vinten, West's Group International, Whitecroft.

Finals—Dobson Park Industries, Durban Roodepoort Deep, East Rand Proprietary Mines, Hunslet, Johnson and Firth Brown, Reliant Motor, Windsor Securities, Wolverhampton and Dudley Breweries.

FUTURE DATES

Interims:—

| | |
|---|---|
| Berkeley Group | Dec. 10 |
| Hampton Gold Mining Areas | Dec. 17 |
| Optometrics (U.S.A.) | Dec. 10 |

Finals:—

| | |
|---|---|
| Baynes (Charles) | Dec. 17 |
| Carlton Communications | Dec. 18 |
| Micro Scope | Dec. 17 |









# RECENT ISSUES

## EQUITIES

| Issue price p | Amount paid up | Latest Renunc. date | 1985 High | 1985 Low | Stock | Closing price p | + or − | Net Div. | Times covered | Gross Yield | P/E Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 180 | F.P. | — | 218 | 195 | Abbott Mead Vickers | 205 | — | bg2.6 | 3.5 | 2.0 | 20.9 |
| 169 | F.P. | — | 195 | 186 | Ashley (Laura) 5p | 194 | +5 | bg1.89 | 3.1 | 1.4 | 33.1 |
| §85 | F.P. | — | 87 | 86 | ‡Chart.Foulks Lynch | 87 | — | bg3.0 | 1.9 | 4.9 | 15.2 |
| §110 | F.P. | 16/12 | 134 | 124 | ‡Cheshire W'foods 5p | 125 | — | bg5.88 | 2.0 | 4.8 | 16.7 |
| $1/71p | F.P. | — | 69 | 95 | China&Eastn.Inv $0.05 | 87 | — | — | — | — | — |
| — | F.P. | — | 21½ | 16 | Do. Warrants | 20 | −1 | — | — | — | — |
| §90 | F.P. | 6/11 | 122 | 94 | ‡Colorgen Inc. $0.01 | 108 | — | — | — | — | — |
| — | — | — | 29½ | 27 | Cont'l Assets Wa'rants | 27 | −½ | — | — | — | — |
| 106 | F.P. | 6/11 | 95 | 85 | ‡Cowells | 85 | — | bg2.8 | 2.6 | 4.8 | 12.0 |
| §95 | F.P. | — | 100 | 97 | ‡Cranswick Mill 10p | 100 | — | bg5.37 | 2.2 | 7.6 | 8.6 |
| §74 | F.P. | — | 75 | 71 | ‡Crusts 5p | 75 | +5 | bg0.7 | 9.6 | 1.3 | 6.1 |
| §122 | F.P. | — | 135 | 130 | ‡Dialene | 135 | −2 | u4.9 | 2.5 | 5.3 | 8.7 |
| 95 | F.P. | 20/12 | 109 | 102 | ‡Ealing Electro. 5p | 100 | — | bg2.8 | 4.3 | 3.1 | 10.5 |
| 100 | 50 | 26/2 | 49½ | 49 | German Sec. Inv. £1† | 49 | — | — | — | — | — |
| 172 | F.P. | 29/11 | 72 | 65 | ‡Gibbon Lyons 10p | 70 | — | bd35.2 | — | 7.2 | 12.8 |
| 187 | F.P. | 11/12 | 67 | 60 | ‡Hampden Home 10p | 65 | −1 | bg1.8 | 2.8 | 3.8 | 15.7 |
| 55 | F.P. | 20/12 | 54 | 91 | INOCO 10p | 91 | — | — | — | — | — |
| 190 | F.P. | 10/1 | 206 | 170 | Intl. City Hldgs. | 175 | +5 | u9.0 | 2.2 | 7.3 | 7.2 |
| §100 | F.P. | — | 202 | 170 | ‡J S Pathology 10p | 202 | +2 | bg3.6 | 2.7 | 2.5 | 21.2 |
| 114 | F.P. | 10/1 | 119 | 97 | ‡Magnetic Materials | 103 | −2 | u6.8 | 3.1 | 9.9 | 9.6 |
| §90 | F.P. | 22/11 | 96 | 91 | ‡Martin (Ronald) 10p | 95 | −2 | bg3.27 | 2.2 | 4.9 | 12.6 |
| §67 | F.P. | 22/11 | 72 | 97 | ‡Metsec 10p | 69 | — | bg24.5 | — | 5.1 | 11.6 |
| §100 | F.P. | 20/12 | 165 | 166 | ‡Millward Brown | 165 | — | bg2.5 | 9.6 | 2.2 | 18.0 |
| 125 | F.P. | 16/12 | 145 | 135 | SPP 10p | 143 | −2 | bg4.75 | 2.3 | 4.7 | 11.0 |
| §175 | F.P. | 22/11 | 192 | 170 | ‡Shandwick 2p | 170 | — | u5.66 | — | 3.1 | 21.1 |
| §97 | F.P. | 10/1 | 106 | 101 | ‡Snowdon & Bridge | 104 | — | bg2.75 | 3.0 | 3.6 | 12.8 |
| §57 | F.P. | 6/1 | 74 | 86 | ‡SterlingPublish'g5p | 70 | — | b2.0 | 1.9 | 4.1 | 16.5 |
| 100 | F.P. | 22/11 | 100 | 97 | Strata Invs. | 98 | — | — | — | — | — |
| — | — | — | 32 | 29 | Do. Warrants | 30 | — | — | — | — | — |
| §116 | F.P. | 20/12 | 126 | 119 | ‡TMD Advertising 5p | 122 | — | bg1.66 | 2.3 | 1.9 | 22.1 |
| §150 | F.P. | — | 192 | 167 | ‡Tech. Compt. Inds. | 196 | +2 | bg3.0 | 9.6 | 2.1 | 24.4 |
| ¶180 | F.P. | 20/12 | 212 | 190 | Underwoods 10p | 197 | +1 | bg1.66 | 3.0 | 1.2 | 38.1 |
| §90 | F.P. | — | 103 | 90 | ‡WYorks.Ind.Hos.10p | 90 | −1 | 64.0 | 1.8 | 6.3 | 12.2 |
| §128 | F.P. | 20/12 | 175 | 150 | ‡World of Leather | 158 | — | bg3.5 | 3.0 | 2.3 | 21.1 |

## FIXED INTEREST STOCKS

| Issue price £ | Amount paid up | Latest Renunc. date | 1985 High | 1985 Low | Stock | Closing price £ | + or − |
|---|---|---|---|---|---|---|---|
| †87.306 | £50 | — | 52⅞ | 29⅝ | Australia 9¼% Ln. 2012 | 51⅛ | −⅛ |
| $1.443 | £30 | 17/1 | 29¼ | 27¼ | Bank of Greece 10¼% Ln. 2010 | 27⅞ | — |
| ‖ | F.P. | 8/1 | 110 | 100 | Biomechanics 8% Cnv. Uns. Ln. 1991 | 100 | — |
| §100 | £10 | 30/1 | 10½ | 10 | Bristol Water 11.2% Red. Deb. 2005-08 | 10 | −¼ |
| §98.458 | F.P. | 27/11 | 116½ | 99 | Brixton Est. 10¼% 1st. Mort. Deb. 2026 | 99 | — |
| ¶¶ | F.P. | — | 109 | 105 | Bunzl 7% Cnv. Uns. Ln. 1995/97 | 107 | +2 |
| ¶100 | £10 | 23/1 | 11¼ | 11⅛ | Chester Water 9% Red. Pref. 1992 | 11¼ | — |
| 5 | Nil | 6/1 | 11ppm | 5ppm | ‡Cont. Microwave 8% Cnv.Red.Pf.2005 | 5ppm | — |
| §98.324 | F.P. | 3/12 | 104¼ | 100¾ | Est. & Gen. Inv.11¼%1stMort.Deb.2018 | 103 | — |
| §100 | £10 | 30/1 | 10½ | 10 | East Anglian Water 11.5%Rd.Db.2005-07 | 10 | — |
| §100 | £10 | 30/1 | 10½ | 10 | Essex Water 11.5% Red. Deb. 2005-07 | 10 | — |
| §100 | £10 | 30/1 | 10½ | 10¼ | Do. 11.3% Red. Deb. 2005-08 | 10¼ | — |
| §97.617 | £26 | 31/1 | 27¾ | 26¾ | Evans of Leeds 11%1st.Mort.Deb. 2025 | 26⅞ | — |
| ¶¶ | F.P. | — | 168 | 160 | Gable Hse. Props. 10¼% Cnv. Ln. 95/99 | 161 | +1 |
| 95.603 | £25 | 10/1 | 25¾ | 24¼ | Haslemere 10½% 1st Mort. 2019 | 26 | −⅛ |
| 88.466 | £30 | 24/1 | 32½ | 29¾ | Intl. Bk. for Rec. & Dev. 9¼% Ln. 2010 | 31⅛ | −⅛ |
| 192.899 | £25 | 31/1 | 25⅝ | 23⅞ | Land Securities 10% Deb. 2025 | 24¾ | −¼ |
| | F.P. | — | 100⅛ | 99¼ | Nationwide Bldg. Soc. 11⅝% 17/11/86 | 99⅞ | — |
| §98.43 | £25 | 21/2 | 25¼ | 24⅛ | Peachey Prop. 10½% 1st Mort. Deb. 2015 | 24⅝ | −⅛ |
| §99.518 | £40 | 26/2 | 40¼ | 40 | Rosehaugh Greycoat 11%1st Mt.Db. 2014 | 40 | — |
| §59.967 | F.P. | 19/4 | 40⅝ | 39⅝ | Safeway Deep Dis. Stepped Ln. 2011 | 40¼ | +⅛ |
| ¶87.25 | £30 | 30/4 | 31⅛ | 29⅛ | Sweden (Kingdom of) 9¼% Ln. 2014 | 30⅛ | −⅛ |
| ‖ | Nil | 22/1 | 39ppm | 22ppm | Tozer Kemsley 8½% Cnv.Cum.Prf.20p | 32pm | −4 |
| 95.543 | F.P. | — | 95⅛ | 95 | Whitbread Inv.7%-12% Step. Int. Db.'15 | 95 | — |
| §98.658 | F.P. | 10/1 | 100¼ | 99¾ | Yeoman Inv. Tst. 11¼% Deb. 2015 | 100¼ | — |

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renunc. date | 1985 High | 1985 Low | Stock | Closing price p | + or − |
|---|---|---|---|---|---|---|---|
| 9½ | Nil | 10/1 | 1¼pm | ½pm | Barker & Dobson 1p | 1¼pm | — |
| 280 | Nil | 20/1 | 84pm | 55pm | Bestwood 16p | 75pm | +20 |
| 145 | Nil | — | 36pm | 23pm | Bodycote Int'l | 36pm | +5 |
| 25 | F.P. | 2/1 | 54 | 40 | Comm. Bk. Wales | 49 | +1 |
| 270 | Nil | 9/1 | 50pm | 40pm | Countryside Props. | 44pm | +2 |
| 130 | Nil | 8/1 | 37pm | 27pm | Crown House | 33pm | — |
| 94 | Nil | 24/1 | 16pm | 13pm | ‡Dencora | 14pm | — |
| 106 | F.P. | 10/1 | 135 | 128 | Fisher (Albert) 5p | 129 | −1 |
| 30 | Nil | — | 2pm | 2pm | Leisure Inv. | 2pm | — |
| 365 | Nil | 10/1 | 80pm | 65pm | Lucas Inds. £1 | 65pm | — |
| 2½ | Nil | 8/1 | 5pm | 3½pm | ‡Metal Sciences 2½p | 5pm | — |
| 60 | F.P. | 23/12 | 64 | 54 | ‡Pavion Intl. | 54 | −1 |
| 32 | Nil | 10/1 | 4pm | 1½pm | Readicut 5p | 1½pm | — |
| 260 | Nil | 24/1 | 130pm | 110pm | Regalian Props. | 115pm | +5 |
| 340 | Nil | 20/1 | 45pm | 35pm | Samuelson Grp. 20p | 35pm | — |
| 187 | Nil | 8/1 | 36pm | 24pm | Wedgwood | 26pm | — |

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. ‖ Dividend and Yield based on prospectus or other official estimates for 1986. u Forecast otherwise indicated. ‡ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ‖‖ Allotment price. ‡‡ Dealt in under Rule 535 (3). ◆ Dealt in under Rule 535 (4) (a). † Units comprising five ordinary and one warrant.

## PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

| | Date | Announcement last year |
|---|---|---|
| AE | Dec 16 | Final 2.5 |
| Argyll Group | Dec 4 | Interim 2.1 |
| *Associated Newspapers | Jan 9 | Final 9.8 |
| BET | Dec 20 | Interim 2.75 |
| *Baker Perkins | Dec 12 | Interim 2.6 |
| *Borthwick (T.) | Dec 10 | Final 0.25 |
| *British Telecom | Dec 12 | Interim due |
| *Charter Cons. | Dec 11 | Interim 3.75 |
| *Chloride | Dec 10 | Interim due |
| *Dobson Park | Dec 9 | Final 3.31 |
| Electronic Rentals | Jan 10 | Interim 1.1667 |
| *Granada | Dec 11 | Final 4.1 |
| *Grand Metropolitan | Dec 18 | Final 5.5 |
| *Greenall Whitley | Dec 10 | Final 1.828 |
| *Greycoat | Dec 12 | Interim 0.75 |
| GUS | Dec 5 | Interim 5.25 |
| Guinness Peat | Jan 9 | Final 0.8 |
| Haslemere Estates | Dec 13 | Interim 2.3 |
| Hunting Gibson | Dec 12 | Interim 0.20 |
| *IC Gas | Dec 10 | Interim 6.25 |
| *Ind Leisure | Dec 12 | Interim 2.0 |
| *Johnson F. Brown | Dec 9 | Final due |
| Lond Merchant Securities | Dec 13 | Interim 0.7 |
| *McCorquodale | Dec 10 | Final 3.4 |
| Magnet and Southerns | Jan 10 | Interim 2.0 |
| *Meyer Intl | Dec 10 | Interim 1.8 |
| *Norcros | Dec 10 | Interim 2.6 |
| *Nthn Foods | Dec 12 | Interim 4.25 |
| *Pilkington Bros | Dec 12 | Final 5.0 |
| Ratners | Jan 11 | Interim 0.67 |
| Scot and Newc Breweries | Dec 17 | Interim 1.9 |
| Stead and Simpson | Jan 11 | Interim 2.0 |
| *Stock Conversion | Dec 9 | Interim 2.5 |
| *Tate and Lyle | Dec 11 | Final 12.5 |
| Thorn EMI | Jan 10 | Interim 5.0 |
| *Vaux Brews | Dec 10 | Final 6.655 |
| Westland | Dec 19 | Final 5.25 |
| *Wlvrhmpton and Dudley Brws | Dec 9 | Final 5.05 |

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

This advertisement is published by Morgan Grenfell & Co. Limited on behalf of Scottish & Newcastle Breweries plc. The directors of Scottish & Newcastle Breweries plc. (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure the facts stated and opinions expressed herein are fair and accurate and each of the directors accepts responsibility accordingly.


The Final Offer† by Scottish & Newcastle for Matthew Brown closes on Wednesday 11th December.

It is currently worth **576p***. If the Matthew Brown share price had followed the FT-Actuaries Brewers and Distillers Price Index since bid speculation started, it would now be standing at around **304p.**

You can see what our offer has done to increase the Matthew Brown share price. Now ask yourself what will rejection do to it?

There has been time enough to discuss the benefits of this generous offer. Now, the time has almost run out. Only sufficient acceptances now will realise these benefits:

S&N offers you

**159%*** *increase in capital value*
**87%*** *increase in income*
**63%*** *premium over net asset value, even including the recent revaluation*
**26*** *times exit price earnings multiple over the latest published earnings per share*

Can you afford to let this go?


# Accept the Scottish & Newcastle offer now!

*Based on S&N's offer of 16 ordinary shares for every 5 Matthew Brown ordinary shares. S&N's ordinary shares closed at 180p on 5th December 1985. (The latest practicable date prior to the appearance of this advertisement.)
The increase in income is based on Matthew Brown's final dividend for the most recent financial year and on a forecast interim dividend.

†This offer is final. It will not be increased and will close if it has not become or been declared unconditional as to acceptances on or before 11th December 1985. S&N reserves the right, however, to increase the offer or extend the closing date in the unlikely event that a competitive situation arises.

# LONDON SHARE SERVICE

## BRITISH FUNDS

### "Shorts" (Lives up to Five Years)

### Five to Fifteen Years

### Over Fifteen Years

### Undated

### Index-Linked

## INT. BANK AND O'SEAS GOVT STERLING ISSUES

## CORPORATION LOANS

## COMMONWEALTH & AFRICAN LOANS

## LOANS

### Building Societies

### Public Board and Ind.

### Financial

## FOREIGN BONDS & RAILS

## AMERICANS

## AMERICANS—Cont.

## CANADIANS

## BANKS, HP & LEASING

### Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS—Cont.

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## DRAPERY & STORES—Cont.

## ELECTRICALS

## ENGINEERING

## ENGINEERING—Continued

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## HOTELS—Continued

## INDUSTRIALS (Miscel.)

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INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

| | | Stock | Price | | | | |
|---|---|---|---|---|---|---|---|
| — | | Anglo Utd Dev | 35 | — | 6d1 05 | 2.1 | 4.3 |
| | — | ♦Centennial Min'ls | 362 | — | — | — | — |
| — | | ♦Colby Res Corp. | 65 | — | — | — | — |
| Aug. | Feb. | Cons. Murch. 10c | 215 | 15.7 | g006½c | 3.9 | 9.7 |
| | — | ♦Eanes Int. Ir10p | 32 | — | — | — | — |
| — | | Greenwich Oil | 78 | — | — | — | — |
| Apr | Oct | Hampton Areas 10p | 147 | 29.7 | 3.75 | 0.9 | 3.4 |
| | — | ♦Highwood Res. | 145 | — | — | — | — |
| May | Aug | Homestake Mining $1 | £15½ | 30.10 | Q20c | — | 0.9 |
| — | | ♦McFinley Red Lake | 210 | — | — | — | — |
| | — | ♦Musto Explorations | 258 | — | — | — | — |
| — | | ♦New Salma Res C$1 | 42 | — | — | — | — |
| — | | Northgate C$1 | 227 | 9/77 | — | — | — |
| Jan. | July | RTZ | 518 | 28.10 | T20.0 | 2.8 | 5.5 |
| Jan | July | Do 9½pcLn '95-2000 | £117½ | 28.10 | Q9½% | 14.0 | 18.4 |
| | — | ♦Tara Expl. $1 | 850 | — | — | — | — |

## NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♦ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim; reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¢ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | | | | |
|---|---|---|---|---|---|
| Albany Inv 20p | 182 | ... | Fin. 13% 97/02 | £105¼ | ... |
| Craig & Rose £1 | 800xd | ... | Arnotts | 227xd | ... |
| Finlay Pkg. 5p | 51 | ... | CPI Hldgs | 70 | ... |
| Holt (Jos) 25p | 710 | ... | Carroll Inds. | 150 | ... |
| IoM Stm £1 | 70 | ... | Dublin Gas | 75 | −2 |
| | | | Hall (R. & H.) | 56 | ... |
| IRISH | | | Heiton Hldgs. | 23½ | ... |
| Fund 11¼% 1988 | £100⅝ | ... | Irish Ropes | 45 | ... |
| Nat. 9¾% 84/89 | £95⅛ | ... | Unidare | 138 | ... |

"Recent Issues" and "Rights" Page 12
(International Edition Page 16)

# INTERNATIONAL APPOINTMENTS

## GE management takes new drive

BY TERRY DODSWORTH IN NEW YORK

THE DRIVE for a more entrepreneurial organisational structure at General Electric, the sixth largest US manufacturing group, has taken a further step forward with the company eliminating an entire layer of senior management. In future, all operating units of the $28bn group will report more directly to the four executives in the corporate executive office.

The move, slipped through with a minimum of fanfare, bears the unmistakable stamp of Mr John Welch, GE's chairman, whose brief period at the top of the company has been marked by attempts to streamline the product range and managerial systems. Mr Welch says that the new organisation is consistent with "our long-stated objective to move to a leaner, flatter, more market-driven structure."

Under the revised organisation, the former system of divisional reporting through a network of "sector" groups has been abandoned in favour of direct control through the corporate executive office, which is headed by Mr Welch. One of the five product groups, originally established in 1977, was eliminated last year. The other four are now being disbanded, with responsibility for monitoring them split up between the four senior managers in the executive office.

One of the former sector heads, Mr James Baker, who was head of the industrial systems activities, is retiring at the age of 58, while another, Mr Paul van Orden, formerly head of consumer products, will move into the executive office. The two others will remain in the divisional groups with somewhat different responsibilities.

Mr Welch himself will take charge of two businesses, major appliances and medical systems, both of which he has managed in the past. Mr van Orden, as an executive vice president, will continue to direct consumer electronics and broadcasting, while Mr Lawrence Bossidy one of the two vice chairmen, will be responsible for plastics, financial services and construction, and the other, Mr Edward Hood, will run most of the high technology operations — aerospace, semiconductors and aircraft engines.

The new structure, Mr Welch says, has "evolved out of an environmental assessment that defined an intensified competitive world — a slower growth world with more, stronger, worldwide competitors fighting for market share. We continue to believe that one of the necessary ingredients to win in this market environment is greater management agility."

## Turmoil at CBS

BY PAUL TAYOR IN NEW YORK

CBS, the US television network and entertainment group, has replaced Mr Edward Joyce, president of CBS News, with the man who preceded him, Mr van Gordon Sauter.

The changes, part of a sweeping management reorganisation in the CBS Broadcast Group, follow a year of turmoil at CBS including its successful defence against a libel suit filed by Gen William Westmoreland, the bitterly fought battle against a takeover attempt mounted by Mr Ted Turner's Turner Broadcasting, and substantial staff reductions—including 125 job cuts in the news division—in an attempt to cut costs.

CBS said the management reshuffle was made necessary by the decision of Mr Jim Rosenfield, a senior vice president of the news division, to take early retirement.

Mr Joyce, who took over the top jobs in the news division when Mr Sauter was appointed executive vice president of the CBS Broadcast Group in 1983, has become senior vice president of CBS World Enterprises. His new responsibilities include that for distributing CBS news programmes overseas and he will report directly to Mr Gene Jankowski, president of the CBS Broadcast Group.

Mr Sauter will retain his executive vice president title within the CBS Broadcast Group—with slightly modified functions—and has added the responsibilities of president of CBS News. As such he will be responsible for the whole of the CBS News and CBS radio divisions—a move which effectively eliminates a management tier between CBS News and Mr Jankowski.

Mr Jankowski, commenting upon these and other changes within the CBS Broadcast Group, says: "I believe this arrangement applies the experience of our senior management logically and combines functions efficiently. At the same time, it provides for innovation and expansion in new markets. It thus reflects both our confidence in the vitality of our continuing businesses as well as our keen interest in the many new opportunities that are developing both here aod abroad, in the new communications environment."

### UK APPOINTMENTS

## Baxendell to join Inchcape

INCHCAPE has appointed Mr Peter Baxendell as a non-executive director from January 1. He is a non-executive director of the Shell Transport and Trading Company, and retired as chairman of the committee of managing directors of the Royal Dutch/Shell Group last June. He is also a director of the Hawker Siddeley Group.

*

Following the death of managing director Mr K. G. S. Munro in a motor-car accident on November 28, the group's holding company K. G. S. MUNRO (ENGINEERS) has made the following appointments: Mr Ronald W. B. Grant, non-executive chairman of the group since 1982, continues as chairman and takes up executive duties full-time; Mr James R. Munro becomes deputy chairman of the group in addition to being chairmao and managing director of Munro Electric (Dundee) and a director of Muoro Projects; Mr David A. Inglis becomes a director aod general manager of Munro Projects; Mr Norman A. C. Thomson continues as financial director and secretary of the holding company and as a director of all subsidiary companies.

*

Mr Ian Smith has been appointed comercial director of NORTHAMBER. He joins from Norbain Electronics where he bad been managing director of Norbain Micro, a subsidiary, since 1982.

*

Mr Anthony Carlisle has been appointed deputy chairman of DEWE ROGERSON, which be joined in 1970.

*

NORDIC BANK has appointed Mr André van't Hoff as an associate director with responsibility for Eurobond sales and trading from January 1. He was formerly a director of Hoare Govett in charge of Eurobond sales and trading Mr Christopher Harding, Ms Mary Daunter, Mr David Hollands-Hurst and Mr William Day will also be joiniog Nordic Bank from Hoare Govett.

*

Mr Hew Stevenson has been appointed deputy chief executive of WESTMINSTER PRESS. In addition to his general role he will assume overall responsibility for industrial relations. Mr Richard McClean, deputy chief executive of the Finaocial Times Group, will join the Westminster Press board.

*

SIMON ENGINEERING has appointed Mr Remy W. L. Grol as managing director of its Netherland subsidiary, Simon-Heesen, Boxtel, which manufactures specialised machinery for the animal feed and related iodustries. The appointment will take effect on January 1.

*

Mr Sam Wauchope has been appointed director of finance for ACORN COMPUTER GROUP. He has been acting financial director for the past two months. Prior to that he was a senior manager with Arthur Andersen & Co. Mr Dennis O'Connor has been appointed director of sales and marketing, joining Acorn from Lotus Development (UK).

*

The PENINSULAR & ORIENTAL STEAM NAVIGATION CO has appointed Mr T. C. Harris to the board from January 1. He will retain his present posts with P & O as chairman aod managiog director of the Earls Coort & Olympia Group and chairman of Sutcliffe Catering Group and Sterling Guards.

*

BRITISH UNDERWATER ENGINEERING bas appointed Mr Bernard J. Adkins to its board as financial director.

*

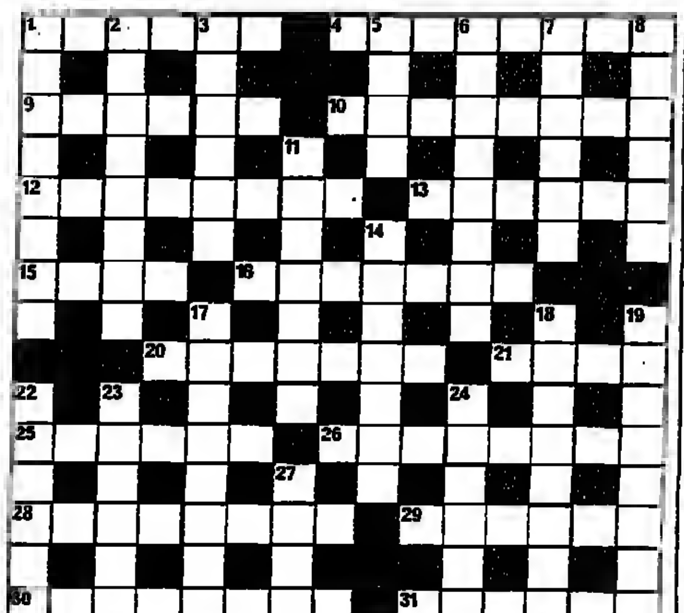
THE CHARTERHOUSE GROUP has appointed Mr George Heron as a director of Charterhouse Investment Management.

*

SILVERMINES, Dublin, has appointed Mr John Gunn as a director. He is an executive director of the British and Commonwealth Shipping Company, and previously was chief executive of Exco International.



## F.T. CROSSWORD PUZZLE No. 5,894



**ACROSS**

1 Adroit Conservative leader with means of applying force (6)
4 The Book of the Carapace? (8)
9 Royalist who escaped new regime (8)
10 Propensity of writer to sing in church (8)
12 Abhorrence of a translation (8)
13 Confess and almost dry up (6)
15 Small measure in Scottish island (4)
18 Done any prescription for a pain-killer? (7)
20 Earring that has lines on it (7)
21 Lives in France, contends in rivalry (4)
25 Lasso given a trial throw (6)
26 Really impress, in the style of a central university? (8)
28 Eg Wise; e.g. Wisdom (8)
29 No main highway overseas (6)
30 Tiny tree chopped down whole (8)
31 Gold trade can be a nightmare (6)

**DOWN**

1 Calm site turns out to be traveller's joy, we hear (8)
2 "The Mount" — suitable address for a cardinal (8)
3 Dark lady loses head on way out (6)
5 A little room for port (4)
6 AB produces pack with some cards already dealt (8)
7 These days, money-changing percentage is very slow (6)
8 Does it learn to set teeth in Cheshire? (6)
11 Dangerous ball that gets troublesome men out (7)
14 Antagonistic commercial lines (7)
17 Shrub of appeal to Hero's love (8)
18 Little chip, first of eight, provides some of the polish (8)
19 Shop deal collapses—what a bloomer! (8)
22 Heard at Notre Dame (home of monster in church) (6)
23 Timely help for faltering actor (3)
24 E.g. Lancaster doctor in new robe (6)
27 Virginia, by the way, is extensive (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

# BUSINESSMAN'S DIARY

## UK TRADE FAIRS AND EXHIBITIONS

**Current**
Exhibition, Conference and Incentive Travel Event—EXCITE (0737 68611) (until December 11) — Olympia

**December 11-13**
International Coal Utilization Exhibition and Conference (01-437 2175) — Wembley Conference Centre

**January 1-12**
London International Boat Show (0932 54511) — Earls Court

**January 9-12**
Holiday and Travel Fair (021-780 4171) — NEC, Birmingham

**January 11-16**
Harrogate International Toy Fair (01-226 6653) — Harrogate

**January 12-16**
International Light Show (05884 658) — Olympia

**January 14-17**
Which Computer? Show (01-891 5051) — NEC, Birmingham

**January 16-19**
Ideal Home Exhibition (0202 296275) — Brighton

## OVERSEAS TRADE FAIRS

**Current**
International New Computer Technology Exhibition — COMPUTER CHINA (01-486 1951) (until January 12) — Beijing

**December 12-15**
Coin and Card Operated Machines and Equipment Exhibition—COIN-OP (01-734 7282) — Singapore

**December 17-19**
Summer Travel Industry Exhibition—TOUR (01-437 2175) — Amsterdam

**January 6-9**
International Hotel and Catering Industries Trade Fair — HORECAVA (01-437 2175) — Amsterdam

**January 7-9**
Computers, Communications and Business Equipment Exhibition — INFO / SOUTHWEST (01-891 5051) — Dallas

**January 9-14**
International Lighting Show (01-439 3964) — Paris

**January 11-19**
International Caravan, Motor and Tourism Exhibition — CMT (01-236 0911) — Stuttgart

**January 14-19**
International Furniture Show (01-930 7251) — Cologne

**January 15-18**
Asian Aerospace Exhibition (01-891 5051) — Singapore

## BUSINESS AND MANAGEMENT CONFERENCES

**December 10**
Chatham House Conference: Environmental pollution — the European dimension (01-930 2233) — Chatham House, SW1

**December 10**
The Institute for Fiscal Studies: Insurance regulation (01-636 3784) — Regent Palace Hotel, W1

**December 10**
Oyez/IBC: Insolvency Act 1985 (01-236 4080) — Cavendish Conference Centre, W1

**December 10-12**
FT Conference: The eleventh world banking conference (01-621 1355) — Hotel Inter-Continental, W1

**December 12**
Oyez/IBC: Telecommunications (01-236 4080) — Portman Hotel, W1

**December 12**
Longman Seminars: VAT — the unexplored areas (01-242 4111) — Barbican Centre

**December 16-17**
DRI Europe: Oil markets — threats and opportunities (01-222 9571) — Mount Royal Hotel, W1

**December 19**
Sweet and Maxwell Professional Conferences: Developments in criminal law and sentencing (01-583 9855) — Manchester Business School

**January 7-8**
Unicom Seminars: Fundamentals of 3D graphics (01-940 7716) — Forum Hotel, SW7

**January 13-14**
Institute of Personnel Management: The secretary in personnel management (01-948 9100) — Kensington Close Hotel, W8

**January 13-14**
FT Conferences: Aerospace in Asia and the Pacific Basin (01-621 1355) — Singapore

**January 13**
Brunel Institute: How effective is your training function? (0895 56481) — Brunel University, Uxbridge

**January 14-15**
Crown Eagle Communications: Effective project management (01-242 4111) — Tower Hotel, E1

**January 16**
Oyez/IBC: Bankers' security and the new insolvency act (01-236 4080) — Royal Lancaster Hotel, W2

**January 20**
Frost and Sullivan: The impact of emerging technologies on your firm (01-935 31900) — Hyatt Carlton Tower, W1

**January 22**
Brunel Institute: How effective is your personnel department? (08965 56461) — Brunel University, Uxbridge

**January 26-27**
Confederation of British Industry: Pakistan—Trade investment and investment opportunities for the UK (01-240 1578) — Karachi

**January 28-30**
Crown Eagle Communications: Advancing in management (01-242 4111) — Tower Hotel, E1

**January 30-31**
Euromoney Conferences: Securitisation (01-236 3288) — Hotel Inter-Continental, W1

*Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.*

# FT UNIT TRUST INFORMATION SERVICE

## AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

# AUTHORISED UNIT TRUSTS & INSURANCES

**Oppenheimer Fund Mngt Ltd**
66 Cannon St, London EC4N 6AE

**Sun Life Trust Mgmt. Ltd**
107 Cheapside, London EC2V 6DU — 01-606 6010

| | | | | |
|---|---|---|---|---|
| American Growth Acc | 23 4 | 25 1 | +0 1 | 2 0 |
| American Income Acc | 25 1 | 25 9 | +0 9 | 4 9 |
| American Income Inc | 24 1 | 25 9 | +0 9 | 4 9 |
| European Growth Acc | 34 6 | 36 0 | +0 5 | 2 4 |
| Far East Growth Acc | 26 3 | 28 0 | -0 1 | 0 4 |
| Growth Acc | 25 2 | 26 8 | +0 1 | 0 9 |
| Japan Growth Acc | 31 5 | 31 5 | | 0 4 |
| UK Growth Acc | 29 1 | 31 0 | +0 2 | 2 4 |
| UK Income Acc | 26 6 | 28 3 | +0 1 | 4 4 |
| UK Income Inc | 26 6 | 28 4 | +0 1 | 4 4 |

**Pearl Trust Managers Ltd (a)(g)**
252 High Holborn, WC1V 7EB — 01-405 8441

**Swiss Life Pen. Tst. Man. Co Ltd (a)(c)**
99-101 London Rd, Sevenoaks — 0732 450161

| | | | |
|---|---|---|---|
| Equity Dist | 239 4 | 253 5 | 3 78 |
| Equity Acc | 288 9 | 305 7 | 3 78 |
| Fixed Int Dist | 116 0 | 120 2 | 11 25 |
| Fixed Int Acc | 170 2 | 176 3 | 11 25 |

*Prices on Dec 2. Next dealing Dec 11
†Prices on Dec 4. Next dealing Jan 2

**Perpetual Unit Trust Mngmt. (a)**
48 Hart Street, Henley on Thames — 0491 576868

**TSB Unit Trusts (b) (c) (y)**
PO Box 3, Keens House, Andover, Hants SP10 1PG
Dealings to 0264 63432 3

| | | | | |
|---|---|---|---|---|
| TSB American | 95 3 | 101 7 | +0 6 | 1 28 |
| Do. Accum | 99 0 | 105 6 | +0 5 | 1 28 |
| TSB Extra Income | 89 0 | 94 7 | -0.7 | 6 03 |
| Do. Accum | 102 4 | 109 0 | -0 1 | 6 07 |
| TSB General | 134 7 | 143 9 | +0 7 | 3 06 |
| Do. Accum | 217 2 | 231 6 | +1.2 | 3 06 |
| TSB Gilt & Fixed Int | 48 0 | 49 0 | | 9 03 |
| Do. Accum | 58 9 | 61 4 | -0 1 | 9 03 |
| TSB Income | 176 9 | 188 2 | +0 6 | 4 76 |
| Do. Accum | 251 5 | 268 9 | +0 4 | 4 76 |
| TSB Pacific | 106 6 | 113 5 | +0 2 | 0 62 |
| Do. Accum | 109 9 | 116 4 | +0 2 | 0 62 |
| TSB International | 238 | 257 4 | +1 7 | 1 96 |
| Do. Accum | 292 4 | 311 6 | +2 1 | 1 96 |
| TSB Natural Resources | 41 6 | 43 3 | | 1 92 |
| Do. Accum | 42 4 | 43 2 | | 1 92 |

**Prolific Unit Trusts**
222 Bishopsgate, London EC2

**Providence Capitol Fd. Mgrs. Ltd**

**3i & Target Fund Mgrs Ltd**

**Target Trust Mngrs. Ltd (a)(g)**

**Prudential Unit Trust Mngrs Ltd (a) (b) (c)**

**Quilter Management Co Ltd**

**Touche, Remnant Unit Trust Mngt Ltd**

**Reed Stenhouse Inv Services Ltd**

**Reliance Unit Mgrs. Ltd**

**Ridgefield Management Ltd**

**Trades Union Unit Trust Managers**

**N.M. Rothschild Asset Management**

**Transatlantic and Gen. Secs. (c) (y)**

**Rowan Unit Trust Mngt. (a)**

**Tyndall Managers Ltd(a)(b)(c)**

**Royal Life Fd. Mgmt. Ltd**

**Royal London Unit Tst Mgrs Ltd**

**Royal Trust Can. Fd. Mgt. Ltd**

**SKG Management Limited**

**UK Provident Unit Trust Managers Ltd**

**Save & Prosper Group**

**Unit Trust Account & Mgmt. Ltd**

**Vanguard Trust Managers Ltd**

**Wardley Unit Trust Managers Ltd (a)**

**Schroder Unit Trust Managers Ltd**

**Waverley Asset Management Ltd (a) (c) (g)**

**WestArco Unit Trust Managers Ltd(a)(c)**

**Whittingdale Unit Trust Managers**

**Wright Seligman Fund Managers Ltd**

**Scottish Equitable Fund Mgrs. Ltd**

**Scottish Life Investments**

**Scottish Mutual Investment Managers Ltd**

**Scottish Provident Inv. Mgt. Ltd**

**Scottish Unit Managers**

**Scottish Widows' Fund Management**

**Standard Life Trust Mgmt. Ltd**

**Stewart Ivory Unit Trust Mgrs Ltd (a)**

**Sun Alliance Fund Management Ltd**

## INSURANCES

**AA Friendly Society**

**Abbey Life Assurance Co Ltd**

**Aetna Life Insurance Co Ltd**

**Albany Life Assurance Co Ltd**

**Allied Dunbar Assurance Plc**

**Ambassador Life Ass. Co Ltd**

**Baltic Assurance Funds**

**Barclays Life Assur. Co Ltd**

**Black Horse Life Ass. Co Ltd**

**British National Life Assurance Co Ltd**

**Canada Life Group**

**Cannon Assurance Ltd**

**City of Edinburgh Life Assurance**

**City of Westminster Assurance**

**Clerical Medical/Fidelity International**

**Clerical Medical Managed Funds Co Ltd**

**Colonial Mutual Group**

**Commercial Union Group**

**Confederation Life Insurance Co**

**Continental Life Insurance PLC**

**Cornhill Insurance PLC**

**Credit & Commerce Life Ass. Ltd**

**Criterion Assurance Group**

**Crown Financial Management Ltd**

**Crusader Insurance Plc**

**Dominion Financial Management**

**Eagle Star Insurance Co Ltd**

**Eagle Star Insur./Midland Assur.**

**Equitable Life Assurance Society**

**Equity & Law**

**Family Assurance Society**

**Federation Mutual Insurance Ltd**

**Framlington Life Insurance Ltd**

**Friends' Provident Life Office**

**GT Management Ltd**

**General Accident Linked Life Assurance(z)**

**Assicurazioni GENERALI SpA**

**General Portfolio Life Ins. Plc**

**Gresham Unit Assurance Ltd**

**Growth & Sec. Life Ass. Soc. Ltd**

**Guardian Royal Exchange**

**Hambro Life Assurance**

**Hearts of Oak Benefit Society**

**Henderson Administration**

**Hill Samuel Life Assur. Ltd**

**Imperial Life Ass. Co of Canada**

**Imperial Life (UK) Ltd**

**Irish Life Assurance Co Plc**

**The LAS Group**

**Langham Life Assur. Co Ltd**

**Legal & General (Unit Assur) Ltd**

**Legal & General (UA)—Contd.**

**Kingswood House, Kingswood, Tadworth, Surrey**

**Legal & General Prop. Fd. Mgrs. Ltd**

**Liberty Life Assurance Co Ltd**

**Lloyds Life Assurance**

**London & Manchester Group**

**London Indemnity & Gnl. Ins. Co Ltd**

**London Life**

**London & Manchester**

**M & G Group**

**MGM Assurance**

**Manufacturers Life Insurance Co (UK)**

**Property Growth Assur Co Ltd**

**Merchant Investors Assurance**

**Municipal Life Assurance Ltd**

**NEL Pensions Ltd**

**National Mutual Life**

**National Mutual of Australasia**

**National Provident Institution**

**New Zealand Insurance Plc**

**Norwich Union Insurance Group**

**PBR Fund Management Ltd**

**Pearl Assurance (Unit Funds) Ltd**

**Phoenix Assurance Co Ltd**

**Pioneer Mutual Insurance Co Ltd**

**Premium Life Assurance Co Ltd**

**Property Equity & Life Ass. Co**

**Providence Capitol Life Assc. Co Ltd**

**Provident Life Assoc Ltd**

**Provident Mutual Life Assc. Assn.**

**Prudential Life Assurance Co Ltd**

**Prudential Assurance Co Ltd**

**Prudential Pensions Limited**

**Reliance Mutual**

**Royal Life Insurance Ltd**

**Save & Prosper Group**

**Schroder Life Assurance Ltd**

**Scottish Amicable Investments**

**Scottish Equitable Life Assce. Soc.**

# INSURANCE, OVERSEAS & MONEY FUNDS

## OFFSHORE AND OVERSEAS

**World Fund S.A.**
2 Boulevard Royal, Luxembourg

| | | | | |
|---|---|---|---|---|
| World Fund NAS | $13.91 | | -0.02 | — |

**World Wide Growth Management◆**
10a, Boulevard Royal, Luxembourg

| | | | | |
|---|---|---|---|---|
| Worldwide Gth Fd | $18.14 | | -0.05 | — |

Inv. Adv.: M. & G. Inv. Mngt., Ltd., London

**Yamaichi Dynamic Mngt Co SA**
10A Boulevard Royal, Luxembourg

| | | | | |
|---|---|---|---|---|
| Advanced Tech | $12.05 | | +0.14 | — |
| Dynamic Gwth Fd | $11.01 | | +0.11 | — |

**Zero Bond Fund Limited**
PO Box 208, St Peter Port, Guernsey 0481 26268

| | | | | |
|---|---|---|---|---|
| Zero Bond Fund | $10.19 | 10.80 | | — |

## Money Market Trust Funds

| | Gross | Net | Gr Equiv CAR | Int Cr |
|---|---|---|---|---|
| **The Charities Deposit Fund** 77 London Wall, London EC2N 1DB 01-588 1015 | | | | |
| Deposit | 11.30 | | | 3-Mth |
| **The Money Market Trust** 63 Qn Victoria St, EC4N 4ST. 01-236 0952 | | | | |
| Call Fnd | 11.73 | 8.77 | 12.83 | Qrth |
| 7-day Fnd | 11.73 | 8.79 | 12.87 | Qrth |
| **Oppenheimer Money Management Ltd** 66 Cannon St, EC4N 6AE. 01-236 1425 | | | | |
| Call Fnd | 11.20 | 8.37 | 12.21 | 6-Mth |
| 7-day Fund | 11.13 | 8.32 | 12.13 | 6-Mth |
| Dollar | 7.00 | — | — | 6-Mth |

## Money Market Bank Accounts

| | Gross | Net | Gr Equiv CAR | Int Cr |
|---|---|---|---|---|
| **Adam & Co. plc** 22 Charlotte Sq, Edinburgh, EH2 4DF 031-225 8484 | | | | |
| Full Service Car Acc | 11.00 | 8.00 | 11.78 | Qtr |
| **Aitken Hume** 30 City Road, EC1Y 2AY 01-638 6070 | | | | |
| Treasury Acc | 11.00 | 8.22 | 12.11 | Qtr |
| Mth Int. Chq | 11.000 | 8.22 | 12.18 | Mth |
| **Allied Arab Bank Ltd** 97-101 Cannon St, London, EC4N 5AD 01-283 9111 | | | | |
| HIBCA | 11.50 | 8.60 | 12.78 | mth |
| **Bank of Scotland** 38 Threadneedle St, EC2P 2EH 01-628 8060 | | | | |
| Money Mkt Cheque Acc. | 11.00 | 8.22 | 12.18 | Mth |
| **Barclays Prime Account** PO Box 125, Northampton 0604 252891 | | | | |
| High Int. Cheque | 11.00 | 8.25 | 12.3 | Qtr |
| **Britannia Investment Services Ltd.** 74-78 Finsbury Pavement, EC2A 1JD. 01-588 2777 | | | | |
| Cater Allen | 11.00 | 8.22 | 12.20 | Mth |
| **Charterhouse Japhet plc** 1 Paternoster Row, EC4M 7DH 01-248 3999 | | | | |
| Sterling | 11.13 | 8.33 | 12.34 | Mth |
| U.S. Dollar | 7.25 | 7.25 | 7.50 | Mth |
| German Marks | 4.25 | 4.25 | 4.33 | Mth |
| Swiss Francs | 1.50 | 1.50 | 1.51 | Mth |
| Japanese Yen | 5.00 | 5.00 | 5.12 | Mth |
| **Citibank Savings** St Martins Hse, Hammersmith Grove 01-748 9251 | | | | |
| Money Market Plus | | 9.34 | 13.93 | Mth |
| **Co-operative Bank Cheque & Save** 78-80 Cornhill EC3 01-626 6543. | | | | |
| £500-£2,500 | 9.50 | 7.10 | 10.41 | Qtr |
| £2,500+ | 12.06 | 9.02 | 13.33 | Qtr |
| **Darlington & Co Ltd** Darlington, Totnes, Devon TQ9 6JE 0803 862271 | | | | |
| Money Mkt Acc. | 11.00 | 8.22 | 12.11 | Qtr |
| **Edward Manson & Co Ltd** 9 Henrietta Place W1M 9AG 01-631 3313 | | | | |
| Cheque Deposit Acc. | 11.50 | 8.59 | 12.26 | Mth |
| **Henderson/Bank of Scotland** 38 Threadneedle St EC2P 2EH 01-628 8060 | | | | |
| Money Mkt. Cheque Acc | 11.00 | 8.22 | 12.18 | Mth |
| **Legal & General (Money Mngrs) Ltd** 355 Euston Road, NW1 3AG 01-388 3211 | | | | |
| High Int Dep Acc. | 11.64 | 8.70 | 12.70 | 6-mth |
| **Lloyds Bank PLC** 71 Lombard St, London, EC3P 3BS. 01-626 1500 | | | | |
| High Int Cheque Account. | 11.25 | 8.25 | 12.16 | Qtr |
| **Lombard North Central PLC** 17 Bruton St, W1A 3DH 01-409 3434 | | | | |
| 14-Day Notice | 11.500 | 8.596 | 12.280 | — |
| **M & G/Kleinwort Benson** 91-99 New London Rd, Chelmsford 0245 51651 | | | | |
| H.I.C.A. | 11.00 | 8.22 | 12.21 | Daily |
| **Midland Bank plc** PO Box 2, Sheffield 0742 20999 Ext 8655 | | | | |
| High Int Chq Acc. | 10.70 | 8.00 | 11.42 | Qtr |
| £10,000+ | 11.10 | 8.30 | 12.34 | Qtr |
| **Oppenheimer Money Mgmnt Ltd** 66, Cannon St, EC4N 6AE 01-236 1425 | | | | |
| Money Mngt. Accs. | 11.00 | 8.22 | | 3-Mth |
| **Phillips & Drew Trust Ltd** 120 Moorgate, London EC2M 6XP 01-628 9771 | | | | |
| High Int Chq Acc. | 11.3125 | 8.46 | 12.47 | Qtr |
| **Provincial Trust** 30 Ashley Rd, Altrincham, Cheshire 061-928 9011 | | | | |
| Cheque Acc. | 11.50 | 8.60 | 12.79 | Mth |
| **Royal Bank of Scotland plc** 24 Lombard St, London EC3S 9BA 031-557 0201 | | | | |
| Premium Account | 11.0 | 8.22 | 12.31 | Qtr |
| **Save & Prosper/Robert Fleming** 28 Western Rd, Romford RM1 3LB. 0708 66966 | | | | |
| H.I.B.A. | 10.83 | 8.10 | 12.05 | Daily |
| **Tyndall & Co** 29-33 Princess Victoria St, Bristol. 0272 732241 | | | | |
| Demand Acc | 11.38 | 8.51 | 12.15 | Qtr |
| Money Acc | 11.03 | 8.25 | 12.15 | Qtr |
| **J. Henry Schroder Wagg & Co Ltd** Enterprise House, Portsmouth 0705 827733 | | | | |
| Special Acc. | 11.00 | 8.22 | 12.20 | Mth |
| Over £10,000 | 11.25 | 8.41 | 12.44 | Mth |
| **Western Trust & Savings Limited** The Moneycentre, Plymouth PL1 5E 0752 24141 | | | | |
| High Int Chq Acc. | 11.63 | 8.69 | 12.83 | Qtr |

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

### NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

## OPTIONS

### 3-month call rates

| | | | |
|---|---|---|---|
| **Industrials** | p | Marks & Spencer | 13 |
| Allied-Lyons | 28 | Midland Bk | 35 |
| BAT | 26 | NEI | 10 |
| BOC Grp | 27 | Nat West Bk | 55 |
| BSR | 8 | P & O Dfd | 35 |
| BTR | 33 | Plessey | 16 |
| Babcock | 13 | Polly Peck | 21 |
| Barclays | 33 | Racal Elect | 15 |
| Beecham | 30 | RHM | 12 |
| Blue Circle | 50 | Rank Org Ord | 35 |
| Boots | 18 | Reed Intnl | 60 |
| Bowaters | 30 | Sears | 12 |
| Brit Aerospace | 32 | TI | 35 |
| Brit. Telecom | 17 | Tesco | 24 |
| Brown (J.) | $3\frac{1}{2}$ | Thorn EMI | 34 |
| Burton Ord | 45 | Trust Houses | 12 |
| Cadburys | 13 | Turner Newall | $9\frac{1}{2}$ |
| Charter Cons | 18 | Unilever | 90 |
| Comm Union | 23 | Vickers | 35 |
| Courtaulds | 13 | **Property** | |
| Distillers | 36 | Brit Land | 16 |
| FNFC | 12 | Land Secs | 26 |
| Gen Accident | 55 | MEPC | 26 |
| Gen Electric | 14 | Peachey | 24 |
| Glaxo | 100 | Samuel Props | 15 |
| Grand Met | 30 | **Oils** | |
| GUS 'A' | 70 | Brit Oil & Min. | $3\frac{1}{2}$ |
| Guardian | 60 | Brit Petroleum | 45 |
| GKN | 20 | Burmah Oil | 27 |
| Hanson Tst | 18 | Charterhall | 4 |
| Hawker Sidd | 36 | Premier | 5 |
| ICI | 42 | Shell | 55 |
| 'Imps' | 16 | Tricentrol | 18 |
| Jaguar | 27 | Ultramar | 18 |
| Ladbroke | 27 | **Mines** | |
| Legal & Gen | 60 | Cons Gold | 40 |
| Lex Service | 24 | Lonrho | 12 |
| Lloyds Bank | 35 | Rio T Zinc | 50 |
| Lucas Inds | 38 | | |

A selection of Options traded is given on the London Stock Exchange Report Page.

# WORLD STOCK MARKETS

## Indices

### NEW YORK — DOW JONES

| | Dec. 6 | Dec. 5 | Dec. 4 | Dec. 3 | Dec. 2 | 1985 High | 1985 Low | Since Com'nd High | Since Com'nd Low |
|---|---|---|---|---|---|---|---|---|---|
| Industrl's | 1477.18 | 1482.21 | 1484.48 | 1459.05 | 1457.91 | 1484.40 (4.12) | 184.96 (4.1) | 1484.40 (4/12/85) | 41.22 (1.7.51) |
| Home Bnds | 81.49 | 81.47 | 81.76 | 81.65 | 81.57 | 81.76 (4.12) | 72.72 (20.5) | — | — |
| Transport.. | 693.39 | 704.33 | 709.62 | 690.78 | 687.27 | 709.62 (4.12) | 553.03 (4.1) | 709.62 (4.12.85) | 12.32 (07.52) |
| Utilities | 165.57 | 163.68 | 165.62 | 163.83 | 163.62 | 168.91 (11.7) | 146.54 (4.1) | 158.91 (12.7.85) | 10.5 (28.4.41) |
| Trading Vol 000's | 126,010 | 181,010 | 153,160 | 109,690 | 105,558 | — | — | — | — |

Day's High 1488.3 (1304.1) Low 1454.79 (1477.98)

| Industrial dividend yield % | Nov. 28 | Nov. 22 | Nov. 10 | Year ago (approx) |
|---|---|---|---|---|
| | 4.29 | 4.32 | 4.40 | 4.92 |

### STANDARD AND POORS

| | Dec. 6 | Dec. 3 | Dec. 4 | Dec. 5 | Dec. 2 | 1980 High | 1980 Low | Since Comp'n High | Since Comp'n Low |
|---|---|---|---|---|---|---|---|---|---|
| Industrials | 225.85 | 226.75 | 297.24 | 223.50 | 225.10 | 227.24 (4.12) | 128.24 (4.1) | 227.24 (4.12.85) | 3.62 (30.6.32) |
| Composite | 202.90 | 205.88 | 204.25 | 200.86 | 200.46 | 204.25 (4.12) | 163.68 (4.1) | 204.23 (4.12.85) | 4.40 (1.6.32) |

| | Nov. 20 | Nov. 13 | Nov. 6 | Year ago (approx.) |
|---|---|---|---|---|
| Industrial dividend yield | 3.57 | 3.62 | 5.66 | 4.07 |
| Industrial P.E ratio | 13.54 | 15.58 | 15.10 | 10.69 |
| Long Gov. Bond yield | 2.93 | 10.02 | 10.15 | 11.71 |

**N.Y.S.E. ALL COMMON**

| Dec. 6 | Dec. 5 | Dec. 4 | Dec. 3 | 1985 High | 1985 Low |
|---|---|---|---|---|---|
| 115.99 | 117.57 | 117.70 | 115.88 | 117.70 (4.12) | 94.68 (4.1) |

**Rises and Falls**

| | Dec. 6 | Dec. 5 | Dec. 4 |
|---|---|---|---|
| Issues Traded | 2,040 | 2,062 | 2,031 |
| Rises | 501 | 857 | 1,293 |
| Falls | 1,105 | 784 | 366 |
| Unchanged | 433 | 421 | 580 |
| New Highs | 74 | 230 | 177 |
| New Lows | 17 | 10 | 15 |

| TORONTO | Dec. 6 | Dec. 5 | Dec. 4 | Dec. 3 | 1985 High | 1985 Low |
|---|---|---|---|---|---|---|
| Metals & Minerals | 1992.1 | 2000.8 | 1997.1 | 1953.8 | 2120.07 (15/2) | 1740.82 (31/10) |
| Composite | 2861.2 | 2879.3 | 2884.8 | 2848.4 | 2884.0 (4/12) | 2348.5 (8/1) |
| MONTREAL Portfolio | 139.07 | 135.75 | 119.78 | 137.86 | 139.76 (4/12) | 117.00 (4/1) |

| | Dec. 6 | Dec. 5 | Dec. 4 | Dec. 3 | 1985 High | 1985 Low |
|---|---|---|---|---|---|---|
| **AUSTRALIA** All Ord. (1/1/80) | 984.5 | 586.2 | 887.4 | 886.7 | 1052.2 (25/10) | 716.1 (7/1) |
| Metals & Mins. (1/1/80) | 441.2 | 482.0 | 484.3 | 484.1 | 593.8 (20/5) | 362.5 (7/1) |
| **AUSTRIA** Credit Aktien (2/1/62) | 115.43 | 118.81 | 118.48 | 118.92 | 121.83 (26/11) | 88.21 (24/1) |
| **BELGIUM** Brussels SE (3/1/80) | 2944.41 | 2946.56 | 2950.64 | 2941.14 | 2966.18 (25/11) | 2090.7 (18/1) |
| **DENMARK** Copenhagen SE (1/1/83) | 251.87 | 231.81 | 228.51 | 223.88 | 257.57 (24/10) | 158.44 (8/1) |
| **FRANCE** CAC General (31/12/82) | 247.8 | 249.5 | 245.4 | 242.7 | 249.7 (28/11) | 180.9 (8/1) |
| Ind Tendance (28/12/84) | 145.1 | 144.8 | 142.2 | 118.8 | 144.8 (5/12) | 100.1 (8/1) |
| **GERMANY** FAZ Aktien (31/12/58) | 586.77 | 691.15 | 684.81 | 674.88 | 801.98 (21/11) | 882.88 (3/1) |
| Commerzbank (1/12/53) | 1726.8 | 1746.6 | 1728.2 | 1594.2 | 1761.4 (4/11) | 1111.8 (3/1) |
| **HONG KONG** Hang Seng Bank (31/7/64) | 1721.89 | 1691.81 | 1700.56 | 1664.88 | 1762.51 (21/11) | 1220.74 (2/1) |
| **ITALY** Banca Comm Ital. (1972) | 441.9 | 445.54 | 448.08 | 442.94 | 446.54 (5/12) | 228.56 (2/1) |
| **JAPAN**** Nikkei (16/5/49) | 12793.55 | 12864.11 | 12811.2 | 12774.8 | 13055.3 (5/10) | 11545.2 (5/1) |
| Tokyo SE New (4/1/68) | 1011.26 | 1013.31 | 1007.79 | 1005.72 | 1057.55 (10/7) | 916.95 (4/1) |
| **NETHERLANDS** ANP-CBS General (1970) | 259.2 | 238.9 | 256.5 | 254.8 | 238.7 (18/11) | 185.6 (3/1) |
| ANP-CBS Indust (1970) | 217.0 | 218.5 | 214.5 | 212.8 | 218.5 (5/12) | 147.9 (3/1) |
| **NORWAY** Oslo SE (4/1/83) | 399.08 | 404.60 | 387.29 | 394.54 | 412.88 (12/11) | 288.18 (2/1) |
| **SINGAPORE** Straits Times (1966) | 931.22 | 509.54 | (c) | (c) | 852.65 (7/3) | 509.54 (5/12) |
| **SOUTH AFRICA** JSE Gold (28/9/78) | — | 1203.1 | 1195.5 | 1166.8 | 1277.1 (25/11) | 828.3 (6/8) |
| JSE Indust (28/9/78) | — | 1040.1 | 1036.1 | 1051.8 | 1041.2 (29/11) | 787.1 (7/4) |
| **SPAIN** Madrid SE (28/12/84) | 131.46 | 132.49 | 132.90 | 134.19 | 137.54 (21/11) | 101.48 (2/1) |
| **SWEDEN** Jacobson & P (1/1/58) | 1609.88 | 1606.64 | 1605.41 | 1612.72 | 1658.58 (2/12) | 1285.32 (8/7) |
| **SWITZERLAND** Swiss BankCpn (31/12/58) | 541.9 | 816.5 | 554.0 | 585.2 | 541.3 (2/12) | 589.7 (8/1) |
| **WORLD** Capital Intl. (1/1/70) | — | 245.7 | 245.7 | 242.7 | 245.7 (27/11) | 184.8 (4/1) |

** Saturday November 30: Japan Nikkei (12,779.5). TSE 1,008.49.

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Closing price | Change on day | | Stocks traded | Closing price | Change on day |
|---|---|---|---|---|---|---|---|
| Beatrice | 2,928,000 | 46 | −⅜ | IBM | 1,635,900 | 141¾ | +1 |
| Dana | 2,044,000 | 27⅞ | −⅞ | TWA | 1,607,000 | 18⅛ | −⅜ |
| Iowa Elect. | 1,911,300 | 20⅛ | −⅞ | AT&T | 1,405,600 | 23⅞ | +⅛ |
| Texaco | 1,675,700 | 31½ | −⅞ | Sears Roe | 1,361,400 | 38⅜ | +1⅛ |
| Am Express | 1,670,200 | 49⅛ | −⅜ | Anheuser | 1,289,600 | 38⅛ | +1⅛ |

## AUSTRIA

| 1985 High | 1985 Low | Dec. 6 | Price Sch % |
|---|---|---|---|
| 445 | 223 | Creditanstalt Pfd. | 418 |
| 590 | 530 | Goesser | 589 |
| 1,250 | 400 | Interunfall | 1,460 |
| — | — | Jungbunzlauer | — |
| 433 | 222 | Laenderbank | 396 |
| 805 | 535 | Perlmooser | 780 |
| 220 | 144 | Steyr Daimler | 163 |

## GERMANY

| 1985 High | 1985 Low | Nov. 20 | Price Dm |
|---|---|---|---|
| 268 | 100.3 | AEG-Telef. | 225 |
| 1,855 | 861 | Allianz Vers. | 1,782 |
| 275.3 | 176.8 | BASF | 963.5 |
| 270.4 | 185 | Bayer | 251.5 |
| 470 | 309.3 | Bayern Hypo | 460 |
| 468 | 318.2 | Bayern-Verein | 468 |

## BELGIUM/LUXEMBOURG

## DENMARK

## FRANCE

## SWITZERLAND

## NORWAY

## AUSTRALIA

## ITALY

## NETHERLANDS

| 1985 High | 1985 Low | Dec. 6 | Price Fls |
|---|---|---|---|
| 263.5 | 188.5 | ACF Holding | 261 |
| 115.5 | 78 | AEGON | 110.2 |
| 289 | 73.4 | Ahold | 75.4 |
| 159.2 | 100.5 | AKZO | 136.5 |
| 552.5 | 569 | ABN | 553 |
| 81.5 | 52.7 | AMEV | 70.3xc |

## SWEDEN

## SINGAPORE

## SOUTH AFRICA

## HONG KONG

## SPAIN

## JAPAN

| 1985 High | 1985 Low | Dec. 7 | Price Yen |
|---|---|---|---|
| 1,335 | 1,040 | Ajinomoto | 1,120 |
| 733 | 415 | All Nippon Air | 663 |
| 2,097 | 1,193 | Alps Electric | 1,780 |
| 1,100 | 521 | Asahi Chem | 804 |
| 928 | 769 | Asahi Glass | 884 |
| 975 | 723 | Bank Tokyo | 785 |

## CANADA

### TORONTO
*Closing prices December 6*

### MONTREAL
*Closing prices December 6*

F—No voting rights or restricted voting rights.

## OVER-THE-COUNTER
*Nasdaq national market, closing prices, December 6*

Continued from Page 25

Closing prices, December 6

# NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 26¾ | 16 | AAR | .56 | 2.2 | 17 | 259 | 26⅛ | 25⅝ | 25⅝ | −¼ |
| 19⅛ | 19⅛ | AGS | | | 14 | 301 | 17⅝ | 17⅛ | 17¼ | −½ |
| 15⅝ | 8⅝ | AMCA | | | | 15 | 11¾ | 11½ | 11½ | −½ |
| 50¼ | 32½ | AMR | | | 7 | 6411 | 41⅝ | 40¼ | 40¼ | −⅝ |
| 24¾ | 18⅝ | AMR pf2.18 | | 8.9 | | 8 | 24⅝ | 24⅝ | 24⅝ | −⅛ |
| 25⅞ | 23 | ANR pf2.67 | | 11. | | 7 | 23¾ | 23¼ | 23¼ | −⅛ |
| 11⅛ | 7⅜ | APL | | | 5 | 4 | 10½ | 10⅜ | 10½ | +⅛ |
| 15⅞ | 9 | ARX | | | 15 | 74 | 15¼ | 15⅝ | 15⅝ | |
| 55¾ | 32¾ | ASA | 2a | 5.6 | | 180 | 35⅞ | 35½ | 35⅝ | +⅛ |
| 27 | 10½ | AVX | .32 | 2.3 | | 419 | 14⅛ | 13¼ | 13⅞ | |
| 28⅞ | 20⅝ | AZP | 2.72 | 11. | 7 | 605 | 25⅞ | 25⅝ | 25⅝ | −¼ |
| 63⅝ | 38⅝ | AbtLab 1.40 | | 2.3 | 18 | 1274 | 61⅝ | 60⅝ | 61¼ | −½ |
| 25⅞ | 19⅝ | AccoWd .30 | | 2.0 | 18 | 325 | 25⅛ | 24½ | 24¾ | −½ |
| 24¾ | 10 | AcmeC .40 | | 3.1 | 18 | 409 | 13 | 12⅝ | 12¾ | −½ |
| 10½ | 7 | AcmeE .32b | | 4.4 | 11 | 54 | 7¼ | 7 | 7¼ | +⅛ |
| 19 | 15½ | AdaEx 1.92e | | 10. | | 39 | 19 | 18⅞ | 19⅛ | |
| 20⅝ | 13½ | AdmMl .40 | | 1.9 | 9 | 54 | u21 | 20¼ | 21 | +¾ |
| 10½ | 6⅝ | AdvSys .53t | | 5.2 | 23 | 524 | 16⅝ | 15⅞ | 16⅝ | +¼ |
| 35⅝ | 22⅛ | AMD | | | 44 | 3558 | 29¾ | 28⅞ | 29¾ | +¾ |
| 12⅝ | 10⅝ | Adobe n | | | | 101 | 12¼ | 12⅛ | 12⅛ | |
| 17 | 14⅝ | Adob pfA | | | | 35 | 17 | 16⅞ | 17 | |
| 17½ | 15¼ | Adob pfB | | | | 87 | u17⅝ | 17½ | 17⅝ | +⅛ |
| 12⅝ | 7 | Advest .12a | | 1.0 | 17 | 249 | 12⅛ | 11⅝ | 11⅞ | −¼ |
| 53⅛ | 34⅝ | AetnLf 2.64 | | 5.3 | 10 | 7203 | 51½ | 49⅞ | 49⅞ | −1½ |
| 57½ | 53¼ | AetL pf5.19e | | 9.8 | | x2378 | 53⅞ | 053 | 53 | −⅜ |
| 43⅞ | 22⅛ | Ahmns 1.20 | | 2.8 | 7 | 2807 | 43 | 40⅝ | 43 | +1½ |
| 3⅝ | 2½ | Aileen | | | | 213 | 3⅝ | 3⅜ | 3½ | −⅛ |
| 64¼ | 44½ | AirPrd 1.48 | | 2.3 | 13 | 806 | 64 | 63 | 63¾ | |
| 24⅝ | 17½ | AirbFrt .60 | | 3.0 | 11 | 45 | 20 | 19¾ | 19⅞ | −¼ |
| 2⅛ | 1⅜ | AlMoa s .10e | | 5.3 | | 1519 | 2 | 1⅞ | 1⅞ | −⅛ |

Continued on Page 25

مكتبات الجبل

# NYSE COMPOSITE CLOSING PRICES

Continued from Page 24

X Y Z

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 16 | 10⅝ | WyleLb | .32 | 2.2 | 65 | 593 | 15¼ | 14⅞ | 14⅞ | −½ |
| 23⅝ | 15½ | Wynns | .60 | 3.6 | 13 | 41 | 17 | 16⅝ | 16¾ | −¼ |
| 60½ | 35⅜ | Xerox | 3 | 5.1 | 20 | 2717 | 59¼ | 58¼ | 58⅜ | −⅜ |
| 56¾ | 48⅛ | Xerox pf | 5.45 | 10. | | 201 | 54⅜ | 54⅜ | 54⅜ | −⅛ |
| 30¼ | 24⅝ | ZaleCp | 1.32 | 4.6 | 13 | 32 | 29 | 28¾ | 28 | |
| 11 | 7¾ | Zapata | .12 | 1.4 | 91 | 407 | 8¾ | 8⅜ | 8½ | −⅜ |
| 61¼ | 32⅜ | Zayre s | .48 | .8 | 17 | 834 | 57¾ | 56⅝ | 56⅝ | −1⅛ |
| 25 | 16¼ | ZenithE | | | | 900 | 353 16¼ | 16 | 16 | −⅛ |
| 21⅞ | 15¾ | Zero s | .32 | 1.6 | 17 | 16 | 20⅜ | 20¼ | 20⅛ | −⅛ |
| 41⅛ | 24¾ | Zurnin | 1.32 | 3.4 | 15 | 227 | 38⅞ | 38⅜ | 38¾ | |

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE CLOSING PRICES

*Closing prices December 6*

# OVER-THE-COUNTER

*Nasdaq national market, closing prices, December 6*

Continued on Page 23

# CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

# A period of consolidation

BY COLIN MILLHAM

It was not a very eventful week on the foreign exchanges. The dollar finished slightly stronger and sterling was a little weaker, but there was no marked trend, and the market gave the appearance of settling into a holding pattern in the run up to the end of the year.

Dealers were looking at levels of DM 2.50, Y200 and $1.50 for sterling as important psychological levels for the dollar, and it was suggested in Frankfurt that the German Bundesbank bought dollars on Monday when the dollar fell to a 2½-year low of DM 2.4920. A level of DM 2.54 was also regarded as a point where the Bundesbank would intervene to prevent the dollar from rising, and against this background the US currency held within a narrow range for the most part.

Few important US economic statistics were released last week and there was no incentive for the market to test the resolve of the central banks in either direction; but it was generally felt the monetary authorities were happy to see a period of consolidation for the dollar.

Unemployment figures on Friday were perhaps the most important of the week, but were neutral as far as the market was concerned, and had no impact. November unemployment fell by 0.1 per cent to 7 per cent, but the number employed in the non-farming sector of the economy rose by only 180,000, against expectations of around 200,000 to 250,000, and compared with a rise of 354,000 in October.

On Monday it was announced that US construction spending rose 1.7 per cent in October from 0.4 per cent in September, and also that non farm productivity increased by 2.1 per cent in the third quarter, against a previous estimate of 1.2 per cent.

The following day an increase of 0.3 per cent in US leading economic indicators was much as forecast for October, but the upward revision to 0.4 per cent from 0.1 per cent for September helped to underpin the dollar, although this was partly offset by news of a surprising 5.5 per cent fall in new home sales.

Wednesday's publication of a 1.1 per cent fall in October US factory orders was in line with expectations, but was another indication of the recent slowdown in economic performance.

Fourth quarter Gross National Product growth is expected to be less than 2 per cent at the flash estimate on December 23, and although the Reagan Administration has forecast growth of 4 per cent for 1986, the market is rather sceptical about this figure.

Events last week tended to confirm that the market is not quite so dedicated to watching every US statistic, while the comment by Dr Clayton Yeutter, US special trade representative, on the benefits of another 10 per cent fall in the value of the dollar had no effect on the market.

Sterling touched $1.50 on Monday, for the first time in over two years, but could not sustain this level in nervous trading, as ministers from the Organisation of Petroleum Exporting Countries prepared to meet in Geneva at the weekend. The pound again looked vulnerable to the fluctuations in the oil market.

### £ IN NEW YORK

| | Dec. 6 | Prev. close |
|---|---|---|
| £ Spot | $1.4800-1.4810 | $1.4806-1.4815 |
| 1 month | 0.43-0.42pm | 0.45-0.49pm |
| 3 months | 1.20-1.18pm | 1.29-1.21pm |
| 12 months | 3.80-3.70pm | 6.80-5.75pm |

Forward premiums and discounts apply to the U.S. dollar.

### CURRENCY MOVEMENTS

| Dec. 6 | Bank of England Index | Morgan Guaranty Change % |
|---|---|---|
| Sterling | 81.1 | −0.5 |
| U.S. dollar | 127.5 | +15.0 |
| Canadian dollar | 81.3 | −11.2 |
| Austrian schilling | 190.0 | +0.7 |
| Belgian franc | 92.5 | −0.7 |
| Danish Kroner | 85.1 | −3.1 |
| Deutsche mark | 130.7 | +10.2 |
| Swiss franc | 101.2 | +13.4 |
| Guilder | 119.9 | +0.2 |
| French franc | 00.6 | −12.0 |
| Lire | 44.7 | −20.2 |
| Yen | 170.4 | +99.8 |

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

### OTHER CURRENCIES

| Dec. 6 | £ | $ |
|---|---|---|
| Arg'tina | 1.1804-1.1831 | 0.8000-0.9010 |
| Aus'alia | 2.1645-2.1075 | 1.4613-1.4688 |
| Brazil | 14,001-14,170 | 0.000-9.6000 |
| Finland | 9.0600-8.0704 | 0.4640-5.4660 |
| Greece | 218.55-223.28 | 148.26-151.65 |
| H'kong | 11.5225-11.5525 | 7.8060-7.8070 |
| Iran | 105.20* | 84.70* |
| Kuwait | 0.4240-0.4310 | 0.28975-0.28985 |
| Lux'burg | 75.80-72.00 | 51.30-51.40 |
| Malay'sia | 3.5775-3.0870 | 9.4250-9.4260 |
| N'Z'land | 2.6050-9.0160 | 1.7667-1.7714 |
| Saudi Ar. | 5.3870-5.6951 | 3.6605-3.5610 |
| Sin'pore | 3.1220-5.1320 | 0.1145-9.1170 |
| S.Af. (Cm) | 3.0965-4.0919 | 9.7027-8.7307 |
| S.Af. (Fn) | 4.9789-0.0427 | 5.5007-5.4188 |
| U.A.E. | 5.4200-5.4283 | 3.8720-3.2750 |

### CURRENCY RATES

| Dec. 6 | Bank rate % | Special Drawing Rights | European Currency Unit |
|---|---|---|---|
| Sterling | — | 0.759549 | 0.591257 |
| U.S.$ | 7½ | 1.09031 | 0.970992 |
| Canadian $ | 8.00 | * | 1.91887 |
| Austria Sch. | 4 | 10.3574 | 10.4781 |
| Belgian Fr. | 8¾ | 56.0200 | 44.8990 |
| Danish Kr. | 7 | 9.98179 | 7.98599 |
| D mark | 4 | 2.75194 | 2.20387 |
| Guilder | 0 | 5.09812 | 2.48017 |
| French Fr. | 9½ | 2.30539 | 6.79596 |
| Lira | 15½ | N/A | 1503.75 |
| Yen | 5 | 221.278 | 177.587 |
| Norway Kr. | 9 | 8.30055 | 6.64910 |
| Span'h Pta. | — | 169.229 | 136.012 |
| Swedish Kr. | 10½ | 8.66322 | 6.20541 |
| Swiss Fr. | 4 | 9.29347 | 1.83477 |
| Greek Dr'ch | 20½ | 165.547 | 130.923 |
| Irish Punt | — | N/A | 0.715228 |

* C$/SDR rate for Dec 5: 1.01953.

### POUND SPOT—FORWARD AGAINST POUND

| Dec 6 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.4720-1.4790 | 1.4770-1.4780 | 0.44-0.41c pm | 3.45 | 1.23-1.18pm | 3.26 |
| Canada | 2.0570-2.0650 | 2.0600-2.0650 | 0.48-0.39c pm | 2.56 | 1.19-1.04pm | 2.19 |
| Nethlnd. | 4.19¾-4.20¾ | 4.19-4.20 | 2⅛-1⅞c pm | 5.72 | 6⅞-5⅞pm | 5.60 |
| Belgium | 75.62-76.00 | 75.80-75.90 | 25-15c pm | 3.15 | 65-50pm | 3.03 |
| Denmark | 13.49¾-13.53¾ | 13.51-13.52 | 9¼-2ore pm | 2.33 | 8½-6¾pm | 2.26 |
| Ireland | 1.2057-1.2107 | 1.2085-1.2095 | 0.25-0.11c pm | 1.79 | 0.52-0.17pm | 1.14 |
| W. Ger. | 3.72-3.73½ | 3.72½-3.73½ | 2½-2pf pm | 7.24 | 6½-6pm | 6.70 |
| Portugal | 230.08-238.91 | 234.32-238.51 | 110-265c dis | −9.53 | 280-470dis | −8.36 |
| Spain | 229.72-230.64 | 230.11-230.64 | 75-125c dis | −5.21 | 245-365dis | −5.30 |
| Italy | 2,539-2,548½ | 2,544½-2,545½ | 15-22 lire dis | −8.72 | 28-36dis | −5.03 |
| Norway | 11.21¼-11.25¾ | 11.20-11.21 | ¼-1½ore dis | −0.94 | 1½-2⅞dis | −0.88 |
| France | 11.35½-11.40½ | 11.39½-11.40½ | 2¼-1½c pm | 1.78 | 4½-3¼pm | 1.38 |
| Sweden | 11.30-11.35 | 11.33-11.34 | ¼-1½ore dis | −0.93 | 1½-2⅞dis | −0.82 |
| Japan | 299¾-300¾ | 299¾-300¾ | 1¼-¾y pm | 3.35 | 3-2½pm | 3.55 |
| Austria | 26.13-26.24 | 26.20-26.24 | 11¼-9¾gro pm | 4.72 | 33½-29pm | 4.77 |
| Switz. | 3.10½-3.11¾ | 3.10¾-3.11¾ | 2⅝-1⅞c pm | 8.20 | 6-5½pm | 7.40 |

Belgian rate is for convertible francs. Financial franc 76.65-76.15. Six-month forward dollar 2.24-2.19c pm, 12-month 3.85-3.70c pm.

### DOLLAR SPOT—FORWARD AGAINST DOLLAR

| Dec 6 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.4720-1.4790 | 1.4770-1.4780 | 0.44-0.41c pm | 3.45 | 1.23-1.18pm | 3.28 |
| Ireland† | 1.2208-1.2262 | 1.2226-1.2233 | 0.22-0.12c pm | 1.67 | 0.80-0.50pm | 2.12 |
| Canada | 1.3950-1.3965 | 1.3959-1.3964 | 0.09-0.12c dis | −0.90 | 0.36-0.41dis | −1.10 |
| Nethlnd. | 2.8305-2.8470 | 2.8395-2.8405 | 0.60-0.57c pm | 2.47 | 1.65-1.62pm | 2.30 |
| Belgium | 51.21-51.45 | 51.30-51.40 | ¼-1c dis | −0.15 | 1-3dis | −0.19 |
| Denmark | 9.12¼-9.16½ | 9.14½-9.15 | ½-1ore dis | −0.98 | 2-2½dis | −0.98 |
| W. Ger. | 2.5195-2.5290 | 2.5230-2.5240 | 0.76-0.71pf pm | 3.49 | 2.15-2.10pm | 3.37 |
| Portugal | 159¾-160¼ | 159¾-160¾ | 150-350c dis | −18.75 | 450-1000dis | −19.12 |
| Spain | 155.64-156.05 | 155.70-155.80 | 100-200c dis | −11.55 | 300-400dis | −9.98 |
| Italy | 1,720-1,726½ | 1,722-1,723 | 15-17 lire dis | −11.15 | 33-36dis | −8.02 |
| Norway | 7.59¾-7.62¾ | 7.91¼-7.91¾ | 2½-2¾ore dis | −4.14 | 7½-8dis | −4.67 |
| France | 7.69-7.71¾ | 7.71¼-7.71¾ | 1.00-1.20c dis | −1.71 | 3.50-3.80dis | −1.88 |
| Sweden | 7.64½-7.68 | 7.67-7.67½ | 3-3¼ore dis | −4.88 | 8-8½dis | −4.30 |
| Japan | 202.90-203.65 | 203.20-203.30 | par-0.03y dis | −0.09 | 0.16-0.12pm | 0.28 |
| Austria | 17.71-17.77 | 17.72-17.75 | 2¼-1½gro pm | 1.27 | 7½-5pm | 1.41 |
| Switz. | 2.0955-2.1085 | 2.1060-2.1070 | 0.77-0.72c pm | 4.25 | 2.20-2.15pm | 4.14 |

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 51.45-51.55.

### FORWARD RATES AGAINST STERLING

| | Spot | 1-month | 3-month | 6-month | 12-month |
|---|---|---|---|---|---|
| Dollar | 1.4775 | 1.4733 | 1.4655 | 1.4554 | 1.4398 |
| D-Mark | 3.73 | 3.7082 | 3.6686 | 3.6130 | 3.5170 |
| French Franc | 11.40 | 11.3827 | 11.3613 | 11.3820 | 11.3536 |
| Swiss Franc | 3.1125 | 3.0919 | 3.0657 | 3.0044 | 2.9143 |
| Japanese Yen | 300.25 | 299.43 | 297.59 | 294.63 | 289.16 |

### EMS EUROPEAN CURRENCY UNIT RATES

| | Ecu central rates | Currency amounts against Ecu December 6 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| Belgian Franc | 44.8320 | 44.8980 | +0.15 | +1.06 | ±1.5425 |
| Danish Krone | 8.12857 | 7.98589 | −1.76 | −0.86 | ±1.6421 |
| German D-mark | 2.23840 | 2.20387 | −1.54 | −0.64 | ±1.1455 |
| French Franc | 6.86402 | 0.72598 | −2.01 | −1.11 | ±1.3654 |
| Dutch Guilder | 2.52208 | 2.48017 | −1.66 | −0.79 | ±1.5162 |
| Irish Punt | 0.724578 | 0.715228 | −1.57 | −0.67 | ±1.6673 |
| Italian Lira | 1520.60 | 1503.73 | −1.11 | −0.96 | ±4.0858 |

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

## FINANCIAL FUTURES

**POUND—$ (FOREIGN EXCHANGE)**

| Spot | 1-mth. | 3-mth. | 6-mth. | 12-mth. |
|---|---|---|---|---|
| 1.4775 | 1.4733 | 1.4655 | 1.4554 | 1.4398 |

**IMM—STERLING $s per £**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 1.4800 | 1.4840 | 1.4710 | 1.4780 |
| March | 1.4685 | 1.4730 | 1.4600 | 1.4670 |
| June | 1.4585 | 1.4625 | 1.4490 | 1.4570 |
| Sept | 1.4515 | 1.4515 | — | 1.2505 |
| Dec | 1.4465 | — | 1.4400 | 1.4490 |

**LIFFE—STERLING £25,000 $ per £**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 1.4765 | 1.4757 | 1.4727 | 1.4790 |
| March | 1.4650 | 1.4625 | 1.4625 | 1.4665 |
| June | 1.4550 | — | — | 1.4565 |

Estimated volume 148 (288)
Previous day's open int. 4,114 (3,923)

**LIFFE—DEUTSCHE MARKS DM 125,000 $ per DM**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 0.3962 | 0.3963 | 0.3960 | 0.3996 |
| March | 0.3996 | 0.3993 | 0.3992 | 0.4000 |
| June | 0.4029 | — | — | 0.4033 |

Estimated volume 10 (21)
Previous day's open int. 244 (240)

### CHICAGO

**US TREASURY BONDS (CBT) 8 per cent $100,000 32nds of 100 per cent**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 91.07 | 91.19 | 80.27 | 81.10 |
| March | 78.30 | 80.11 | 78.19 | 80.01 |
| June | 78.27 | 78.08 | 78.15 | 78.29 |
| Sept | 77.27 | 78.06 | 77.15 | 77.28 |
| Dec | 78.30 | 77.07 | 78.19 | 76.30 |
| March | 76.04 | 78.12 | 75.23 | 78.03 |
| June | 78.15 | 76.21 | 75.04 | 75.11 |
| Sept | — | — | — | — |
| Dec | 74.08 | 74.17 | 73.29 | 74.04 |
| March | 73.25 | 73.25 | 73.15 | 73.21 |

**US TREASURY BILLS (IMM) $1m points of 100 per cent**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 92.84 | 92.87 | 92.83 | 92.88 |
| March | 92.92 | 92.94 | 92.88 | 92.92 |
| June | 92.77 | 92.81 | 92.75 | 92.78 |
| Sept | 92.50 | 92.54 | 92.48 | 92.53 |
| Dec | 92.22 | 92.27 | 92.21 | 92.26 |
| March | 91.94 | 91.97 | 91.94 | 91.98 |
| June | 91.68 | 91.71 | 91.68 | 91.72 |
| Sept | 91.43 | 91.46 | 91.43 | 91.47 |

**CERT DEPOSIT (IMM) $1m points of 100 per cent**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 92.10 | 92.12 | 92.10 | 92.10 |
| March | 92.10 | 92.17 | 92.13 | 92.15 |
| June | 91.97 | — | — | 91.99 |
| Sept | 91.66 | — | — | 91.70 |

**THREE-MONTH EURODOLLAR (IMM) $1m points of 100 per cent**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 91.81 | 91.85 | 91.80 | 91.81 |
| March | 91.83 | 91.87 | 91.87 | 91.03 |
| June | 91.65 | 91.71 | 91.63 | 91.67 |
| Sept | 91.36 | 91.42 | 91.36 | 91.40 |
| Dec | 91.06 | 91.13 | 91.07 | 91.11 |
| March | 90.78 | 90.84 | 90.79 | 90.83 |
| June | 90.50 | 90.55 | 90.50 | 90.56 |
| Sept | 90.23 | 90.29 | 90.22 | 90.29 |

**LIFFE—EURODOLLAR OPTIONS $1m points of 100%**

| Strike price | Calls—Last Dec | March | June | Vol | Puts—Last Dec | March | June | Vol |
|---|---|---|---|---|---|---|---|---|
| 90.00 | 1.82 | 1.81 | 1.69 | — | — | — | 0.03 | — |
| 90.50 | 1.32 | 1.32 | 1.23 | — | — | 0.01 | 0.67 | — |
| 91.00 | 0.82 | 0.85 | 0.82 | — | — | 0.04 | 0.16 | — |
| 91.50 | 0.33 | 0.44 | 0.48 | — | 0.01 | 0.13 | 0.32 | — |
| 92.00 | 0.02 | 0.17 | 0.24 | 190 | 0.20 | 0.36 | 0.88 | — |
| 92.50 | — | 0.04 | 0.09 | — | 0.68 | 0.73 | 0.93 | — |
| 93.00 | — | — | 0.03 | — | 1.18 | 1.19 | 1.37 | — |

Previous day's open int. Calls 2,764, Puts 3,270

**LIFFE £/$ OPTIONS £25,000 (cents per £1)**

| Strike price | Calls—Last Dec | March | June | Vol | Puts—Last Dec | March | June | Vol |
|---|---|---|---|---|---|---|---|---|
| 1.20 | 27.80 | 27.80 | 27.80 | — | — | 0.01 | 0.17 | — |
| 1.25 | 22.80 | 22.80 | 22.80 | — | — | 0.04 | 0.45 | — |
| 1.30 | 17.80 | 17.80 | 17.80 | — | — | 0.19 | 1.01 | — |
| 1.35 | 12.80 | 12.80 | 12.80 | — | — | 0.63 | 2.00 | 2 |
| 1.40 | 7.80 | 6.13 | 5.08 | — | — | 1.63 | 3.58 | — |
| 1.45 | 2.84 | 4.95 | 6.27 | — | 0.19 | 3.45 | 5.77 | 38 |
| 1.50 | 0.25 | 2.70 | 4.13 | 40 | 2.60 | 6.20 | 8.63 | 4 |

Previous day's open int. Calls 9,732, Puts 17,368

**LONDON SE £/$ OPTIONS £12,500 (cents per £1)**

| Strike price | Calls—Last Dec | Jan | Feb | Vol | Puts—Last Dec | Jan | Feb | Vol |
|---|---|---|---|---|---|---|---|---|
| 1.20 | 27.80 | — | — | — | 0.10 | — | — | — |
| 1.25 | 22.80 | — | — | — | 0.10 | — | — | — |
| 1.30 | 17.80 | — | — | 6 | 0.10 | — | — | — |
| 1.35 | 12.80 | 12.60 | 12.70 | 237 | 0.10 | 0.15 | 0.40 | — |
| 1.40 | 7.80 | 7.70 | 7.80 | — | 0.10 | 0.36 | 1.10 | — |
| 1.45 | 2.80 | 3.60 | 4.20 | 43 | 0.30 | 1.35 | 3.00 | — |
| 1.50 | 0.35 | 1.25 | 2.10 | — | 3.10 | 4.40 | 5.70 | — |

Previous day's open int. Calls 8,827, Puts 10,285

**PHILADELPHIA SE £/$ OPTIONS £12,500 (cents per £1)**

| Strike price | Calls—Last Dec | Jan | Feb | Vol | Puts—Last Dec | Jan | Feb | Vol |
|---|---|---|---|---|---|---|---|---|
| 1.20 | 27.75 | — | — | 2 | — | — | — | — |
| 1.25 | 22.75 | — | — | 1 | — | — | — | — |
| 1.35 | 12.80 | — | — | 30 | 0.05 | — | — | 90 |
| 1.40 | — | — | — | — | — | — | — | — |
| 1.45 | 3.00 | 5.80 | — | 651 | — | 1.10 | — | 43 |
| 1.50 | 0.25 | 1.20 | 2.20 | 1684 | — | — | 5.05 | 4 |

Previous day's open int: Calls 62,273 Puts 58,706

### LONDON

**20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 111-18 | 111-18 | 111-18 | 111-24 |
| March | 111-24 | 111-29 | 111-19 | 111-28 |
| June | 112-02 | — | — | 111-28 |

Est. volume 1,572 (3,096)
Previous day's open int. 5,264 (5,809)
Basis quote (clean cash price of 13½% Treasury 2004-08 less equivalent price of near futures contract) −4 to +6 (32nds).

**10% NOTIONAL SHORT GILT £100,000 64ths of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 97-06 | 97-08 | 97-04 | 97-18 |
| March | 97-18 | 97-23 | 97-18 | 97-25 |

Est. volume 76 (194)
Previous day's open int. 1,068 (1,104)

**FT-SE 100 INDEX £25 per full index point**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 140.80 | 141.35 | 139.50 | 140.20 |
| March | 142.15 | 142.95 | 142.20 | 141.50 |

Est. volume 446 (768)
Previous day's open int. 2,855 (2,540)

**THREE-MONTH STERLING £500,000 points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 88.39 | 88.40 | 88.36 | 88.42 |
| March | 88.97 | 88.98 | 88.94 | 89.00 |
| June | 89.35 | 89.36 | 89.33 | 89.41 |
| Sept | 89.48 | 89.48 | 89.46 | 89.51 |
| Dec | 89.40 | — | — | 89.44 |

Est. volume 1,004 (2,186)
Previous day's open int. 2,067 (2,124)

**THREE-MONTH EURODOLLAR $1m points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 91.82 | 91.83 | 91.80 | 91.8[illegible] |
| March | 91.21 | 91.84 | 91.79 | 91.8[illegible] |
| June | 91.66 | 91.69 | 91.69 | 91.6[illegible] |
| Sept | 91.40 | 91.44 | 91.40 | 91.4[illegible] |
| Dec | 91.11 | — | — | 91.14 |

Est. volume 3,728 (3,459)
Previous day's open int. 21,098 (21,365)

**US TREASURY BONDS 8% $100,000 32nds of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 81-04 | 81-09 | 80-29 | 81-06 |
| March | 79-26 | 80-01 | 79-18 | 79-29 |
| June | 78-23 | 78-31 | 78-18 | 78-28 |

Est. volume 3,190 (3,204)
Previous day's open int. 2,943 (3,168)

### EXCHANGE CROSS RATES

| Dec. 6 | £ | $ | DM | YEN | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1. | 1.478 | 3.750 | 300.3 | 11.40 | 3.113 | 4.195 | 2545. | 2.063 | 75. |
| $ | 0.677 | 1. | 2.526 | 203.2 | 7.716 | 2.107 | 2.839 | 1723. | 1.396 | 51. |
| DM | 0.269 | 0.396 | 1. | 80.50 | 5.056 | 0.834 | 1.125 | 689.3 | 0.553 | 20. |
| YEN | 3.331 | 4.921 | 12.49 | 1000. | 37.97 | 10.37 | 13.97 | 8476. | 6.869 | 255. |
| F Fr. | 0.877 | 1.296 | 3.272 | 263.4 | 10. | 9.130 | 6.680 | 2232. | 1.809 | 66. |
| S Fr. | 0.321 | 0.470 | 1.199 | 96.47 | 3.263 | 1. | 1.348 | 817.7 | 0.663 | 24. |
| N Fl. | 0.238 | 0.352 | 0.889 | 71.67 | 2.718 | 0.742 | 1. | 606.7 | 0.492 | 18. |
| Lira | 0.393 | 0.581 | 1.466 | 118.0 | 4.479 | 1.223 | 1.648 | 1000. | 0.810 | 29. |
| C $ | 0.485 | 0.716 | 1.808 | 140.6 | 5.527 | 1.809 | 2.034 | 1234. | 1. | 38. |
| B Fr. | 1.318 | 1.948 | 4.018 | 395.8 | 15.05 | 4.108 | 5.551 | 3355. | 2.710 | 100 |

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

### EURO-CURRENCY INTEREST RATES

| Dec. 6 | Short term | 7 Days notice | 1 Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Sterling | 11⅝-11¾ | 11⅝-11¾ | 11¾-11¾ | 11⅞-11¾ | 11⅞-11⅞ | 11⅞-11⅞ |
| U.S. Dollar | 7¾-8⅛ | 8⅛-8¼ | 8⅛-8¼ | 8⅛-8¼ | 8⅛-8⅜ | 8⅜-8⅛ |
| Can Dollar | 8¼-8¾ | 8⅝-8⅝ | 8⅞-9⅛ | 9-9¼ | 9⅛-9⅜ | 9⅛-9⅜ |
| D Guilder | 5¾-5⅞ | 5¾-5⅞ | 5¾-5⅞ | 5⅞-5⅞ | 5⅞-6 | 5⅞-6⅛ |
| Sw. Franc | 2-9¼ | 1⅝-1⅞ | 4⅛-4⅜ | 4-4⅛ | 4-4⅛ | 4⅛-4¼ |
| Deutschmark | 4⅝-5¼ | 4⅝-5¼ | 4¾-4⅞ | 4¾-4⅞ | 4¾-4⅞ | 4⅞-5 |
| Fr. Franc | 8¾-8⅞ | 9-9¼ | 9⅛-9½ | 10-10⅛ | 10⅛-11 | 10⅝-10⅞ |
| Italian Lire | 14-17 | 21-26 | 17-18½ | 16¼-18¼ | 15¼-19 | 14¾-10⅛ |
| B.Fr.(Fin) | 8⅝-8⅞ | 9⅛-8¾ | 8⅝-8⅝ | 9⅛-8⅝ | 8¾-9⅛ | 8⅝-8⅝ |
| Br.Fr (Con) | 8⅝-8⅞ | 8⅛-8¼ | 8⅜-8⅝ | 8⅜-8⅝ | 8⅛-8⅜ | 8⅝-8⅝ |
| Yen | 8⅛-8⅞ | 8¼-8⅜ | 8⅛-8½ | 7⅞-7⅞ | 7⅞-7⅞ | 7⅞-7⅞ |
| D. Krone | 8½-9 | 9-9⅛ | 9⅛-9⅝ | 9¼-9¾ | 9¼-9¾ | 8¼-9¾ |
| Asian $ (Sng) | 8⅛-8¼ | 8⅛-8⅜ | 8⅛-8⅜ | 8⅛-8⅜ | 8⅛-9⅛ | 8⅛-8⅜ |

Long-term Eurodollars: two years 8¾-9 per cent; three years 9¼-9½ per cent; four years 9½-9¾ per cent; five years 9¹¹⁄₁₆-9¹¹⁄₁₆ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

## MONEY MARKETS

# Bank ends base rate hopes

> **UK clearing banks base lending rate 11½ per cent since July 30**

Interest rates had a slightly firmer tone in London last week, after the Bank of England effectively ruled out any cut in bank base rates before the year-end. On Monday the authorities provided most of the help to the money market through late assistance, at a rate high enough to discourage any hopes that sterling's temporary rise above $1.50 would result in lower UK interest rates. Nervousness ahead of the weekend meeting of Opec ministers soon brought the pound back below $1.50, and in these circumstances the market's hopes of lower base rates faded.

In New York the Federal funds rate was generally above 8 per cent, and there was no sign the Federal Reserve intends an early cut in its discount rate. US M1 money supply has become a growing enigma. The rate remains well above target after Thursday's announcement of a weekly rise of $4.4bn, but the sharp increase appeared to be largely because of a computer failure at the Bank of New York.

Also during the week, a speech by Mr Preston Martin, vice chairman of the Federal Reserve Board, indicated a downgrading of the importance of M1, as far as the central bank's monetary policy was concerned.

In Frankfurt money market conditions became much more comfortable, after tight conditions at the end of November. The Bundesbank supplied DM 16.6bn in temporary liquidity through securities repurchase agreements, against expiring agreements of only DM 9.1bn. Call money eased to 4.60 per cent on Friday from 5.50 per cent at the end of the previous week.

**(4 pm)**

| | |
|---|---|
| Prime rate | 9½ |
| Broker loan rate | 5 |
| Fed funds | 8 |
| Fed funds at intervention | — |

**Treasury Bills & Bonds**

| | |
|---|---|
| One month | 6.23 |
| Two month | 7.23 |
| Three month | 7.46 |
| Six month | 7.67 |
| One year | 7.86 |
| Two year | 6.45 |
| Three year | 5.72 |
| Four year | 6.98 |
| Five year | 5.15 |
| Seven year | 8.46 |
| 10 year | 5.93 |
| 30 year | 5.88 |

### WEEKLY CHANGE IN WORLD INTEREST RATES

| LONDON | Dec. 6 | change |
|---|---|---|
| Base rates | 11½ | Unch'd |
| 7 Day Interbank | 11¾ | −⅛ |
| 3 mth Interbank | 11⅝ | +⅛ |
| Treasury Bill Tender | 11.1095 | +0.0942 |
| Band 1 Bills | 11⅝ | Unch'd |
| Band 2 Bills | 11⅞ | Unch'd |
| Band 3 Bills | 11¼ | Unch'd |
| Band 4 Bills | 11⅞ | Unch'd |
| 3 Mth. Treasury Bills | 11⅞ | +⅛ |
| 1 Mth. Bank Bills | 11⅝ | +⅛ |
| 3 Mth. Bank Bills | 11⅞ | +⅛ |
| **TOKYO** | | |
| One month Bills | 8.03125 | −0.125 |
| Three month Bills | 7.00625 | Unch'd |
| **BRUSSELS** | | |
| One month | 8⅝ | Unch'd |
| Three month | 8½ | −⅛ |
| **AMSTERDAM** | | |
| One month | 5⅞ | +⅛ |
| Three month | 5⅞ | +⅛ |

| NEW YORK | Dec. 6 | change |
|---|---|---|
| Prime rates | 9½ | Unch'd |
| Federal funds | 8 | +⅛ |
| 3 Mth. Treasury Bills | 7.49 | +0.10 |
| 6 Mth. Treasury Bills | 7.71 | +0.07 |
| 3 Mth. CD | 8.09 | +0.12 |
| **FRANKFURT** | | |
| Lombard | 6.0 | Unch'd |
| One Mth. Interbank | 4.80 | −0.10 |
| Three month | 4.80 | Unch'd |
| **PARIS** | | |
| Intervention Rate | 8¾ | Unch'd |
| One Mth. Interbank | 8⅞ | +⅛ |
| Three month | 9⅞ | +⅛ |
| **MILAN** | | |
| One month | 16⅛ | Unch'd |
| Three month | 14⅞ | +¼ |
| **DUBLIN** | | |
| One month | 10⅛ | +⅛ |
| Three month | 10⅛ | +⅛ |

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

### BANK OF ENGLAND TREASURY BILL TENDER

| | Dec. 6 | Nov. 29 |
|---|---|---|
| Bills on offer | £100m | £100m |
| Total of applications | £404m | £369m |
| Total allocated | £100m | £100m |
| Minimum accepted bid | £97.225 | £97.246 |
| Allotment at minimum level | 97% | 61% |

| | Dec. 6 | Nov. 29 |
|---|---|---|
| Top Accepted rate of discount | 11.1305% | 11.0050% |
| Average rate of discount | 11.1095% | 11.0123% |
| Average yield | 11.43% | 11.53% |
| Amount on offer at next tender | £100m | £100m |

### FT LONDON INTERBANK FIXING

(11.00 a.m. Dec. 6)

| Three months U.S. dollars | |
|---|---|
| bid 9 1/8 | offer 8 1/4 |

| Six months U.S. dollars | |
|---|---|
| bid 8 1/8 | offer 8 1/4 |

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

### LONDON MONEY RATES

| Dec. 6 | Over night | 7 days notice | Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Interbank | 6-12 | 11⅝-11⅞ | 11⅝-11¾ | 11⅞-11⅞ | 11⅞-11⅞ | 11¾-11⅝ |
| Sterling CDs | — | — | 11⅝-11¾ | 11⅞-11⅞ | 11⅞-11⅞ | 11⅞-11⅝ |
| Local Authority Depos | 11⅝ | 11½ | 11⅝ | 11⅞ | 11⅞ | 11⅞ |
| Local Author'y Bonds | — | — | 10 | 11⅞ | 11⅝ | 11⅝ |
| Discount Mkt Depos. | 7-11⅝ | 11⅞-11⅞ | 11½ | 11¾ | — | — |
| Comp'ny Depos. | 9-11⅞ | 11¾-11⅞ | 11⅞ | 11⅞ | — | — |
| Finance Hse Depos | — | — | 11⅞ | 11⅞ | 11⅞ | 11¼ |
| Treasury Bills (Buy) | — | — | 11⅝ | 11⅛ | — | — |
| Bank Bills (Buy) | — | — | 11⅝ | 11⅞ | 10⅞ | — |
| Fine Trade Bills (Buy) | — | — | 10 | 11½ | 11⅞ | — |
| Dollar CDs | — | — | 8.10-8.15 | 8.10-8.15 | 8.10-8.15 | 8.26-8.30 |
| SDR Linked Depos | — | — | 8⅛-8¼ | 7⅞-8⅞ | 7⅞-8⅞ | 8-8¼ |
| ECU Depos | — | — | 6⅞-8⅞ | 8⅞-9⅞ | 6⅞-8⅞ | 8⅞-8⅞ |

Treasury Bills (sell): one-month 11⅞ per cent; three-month 11⁴⁄₃₂ per cent. Bank Bills (sell): one-month 11¹¹⁄₃₂ per cent; three-month 11⁹⁄₃₂ per cent. Treasury Bills: Average tender rate of discount 11.1095 per cent. ECGD Fixed Finance Scheme IV reference rate November 6 to December 3 (inclusive): 11.012 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from December 1, 1985. Bank Deposit Rates for sums at seven days' notice 8.25-0.625 per cent (nil). Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent; three-six months 11⅛ per cent; six-nine months 11½ per cent; nine-12 months 11¼ per cent. Under £100,000 10¾ per cent from November 29. Deposits held under Series 5 11¾ per cent. Deposits withdrawn for cash 7½ per cent.

### MONEY RATES

| Dec. 6 | Ov'r-nig't | One Month | Two Months | Three Months | Six Months | Lombard In'v'ntion |
|---|---|---|---|---|---|---|
| Frankfurt | 4.55-4.00 | 4.75-4.90 | 4.75-4.90 | 4.15-4.85 | 4.75-4.00 | 5.5 |
| Paris | 8⅞ | 8⅞-8⅞ | 8⅞-8⅞ | 8⅞-8⅞ | 8⅞-9⅛ | 8¾ |
| Zurich | 7⅞-11⅛ | 4⅛-4⅛ | — | 4-4⅛ | — | — |
| Amsterdam | 5¾-0⅞ | 5⅞-5⅞ | — | 5⅞-5⅞ | — | — |
| Tokyo | 8.03125 | 9.20 | — | 7.90696 | — | — |
| Milan | 14⅝-15 | 15-15⅜ | — | 14⅝-15 | — | — |
| Brussels | 8.80 | 8½-8⅞ | — | 8⅞-8⅞ | — | — |
| Dublin | — | 10-10⅞ | 10⅞-10⅞ | 10⅞-10⅞ | 10⅞-10⅞ | — |

FINANCIAL TIMES SURVEY

# CHINA

## AT THE CROSSROADS

**Deng, China's top leader, faces new problems in liberalising the economy. Standards of living are much improved, but fresh difficulties threaten further growth.**

**CHINA'S "open door" to foreign trade opened wide this year. In flew, among other things, thousands of limousines, minibuses, colour televisions, and, if Peking's media are to be believed, blue videos. Inside China, these new delights provoked massive corruption, black marketeering and an alarming outrush of foreign exchange. At the same time, the urban economic reforms of October 1984 generated chaotic industrial growth and inflation.**

While all of Peking's leaders outwardly profess support for the "open door," some would like to slam it almost shut, leaving only a crack ajar to let in carefully chosen foreign technology. But China's top leader, Deng Xiaoping, is battling hard to proceed with the open trade policy and the liberalising of the urban economy. He and his supporters believe this is the only way to modernise China.

By Colina MacDougall

Besides his economic difficulties, Deng has a new threat with which to contend. This is student unrest. Apparently triggered by poor living conditions, it soon grew into hostility to Japan when Premier Yashuhiro Nakasone in August paid honour to his country's war dead. This evoked bitter memories of Japan's occupation of China in the 1930s and 1940s.

Curiously, the anti-Japanese feeling seems to have been in part brought out by the inrush of the very goods—Hitachi colour TVs, Toyota Crowns—which were so desirable. The economic success of other countries was seen as an insulting defeat for China, as was the Hong Kong victory in a football match in the Spring which unleashed a minor riot. Peking has now taken down the billboards along its main thoroughfare which for several years have advertised Japanese products.

The party leadership, headed by 81-year-old Deng on the reformer's side and, for the conservative Marxists, the almost as elderly head of state Li Xiannian and one-time economic planner Chen Yun, is unlikely to be divided over the need to curb tendencies to overt xenophobia. Nor will it differ on the requirement to cut down corruption and black marketeering, or even to take the heat out of the economy. But leaders may well have different views about how soon—if at all—the liberalising of the economy should resume after the go-slow currently being imposed.

The party's special delegates' meeting last September was originally convened to force retirement on elderly officials and to appoint younger, better-qualified men and women in their place. While it partly fulfilled that task it unexpectedly provided a forum for a fierce debate on the reform policy in which Deng was on the defensive.

Chen Yun and Li Xiannian criticised the economic muddle and the moral evils which the economic reform and the "open door" trade policy had introduced, while Deng spoke sharply about earlier leftist errors and the huge difficulties of carrying out a new kind of economic policy.

Numerous younger officials were promoted to top jobs, which many observers believed meant that the reformist group was firmly in command. But the reform policies have been severely retrenched, and imports, which had soared wildly above their 1984 level, are now subject to long delays. This may be temporary, or it may herald a long dispute over how much of the reform is wise.

Since the meeting, the debate has continued. In the press, articles defending the reform have pointed out, as the reforming leaders had already warned, that mistakes are ineveitable in such a huge change. But the conservative Marxists are hitting back.

They may not object in principle to a more liberalised economy than China had in the 1960s and 1970s, yet they certainly mind the currency black market, speculation and even freedom of movement to which it gives rise.

Besides the prison sentences handed out in November to officials convicted of economic crimes, there is a growing move to clamp down on the hundreds of thousands of small traders responsible to nobody but themselves who have become such a feature of the urban scene in the last few years.

"Some private businesses are making far too much money", officials in Wuxi told the Financial Times. 'We shall have to take it away from them". And there is a new trend towards cutting out anything resembling freer culture — in Peking a new play, 'WM" (from the Chinese "women", meaning "us"), which dealt in an impressionistic way with the problems of daily life, was closed almost as soon as it opened.

Chen and Li might well ask after the year's events how ready is China's economy for a liberalising reform. It demands some understanding of what the reformers are trying to do, and at least a modicum of managerial skills. Chinese economists stress that the reform means moving to the use of financial levers to control the new market economy, but so far neither the administrators nor the managers seem to have grasped how to work with them.

### New powers

This year, when Chinese enterprises went over from a system of government grants to borrowing from the banks, loans were so easy to obtain that some factories used them to raises wages and bonuses. Even if the banks made more effort to find out what loans were for, they do not have staff who can assess any better than most Chinese managers whether new projects are feasible.

There has been little common sense shown this year by provincial authorities in using their new powers. The classic case of impoverished Hainan island, which was given a special allowance of foreign exchange and then bought tens of thousands of cars which it resold at colossal profits to less favoured areas, was unique, but numerous provinces and cities bought colour TV production lines without a thought for the competition they would then face from one another.

The much-vaunted appointment in China of younger and better-qualified men may not bring the benefits the reformers expect. Many were trained in the Soviet Union, not usually a source of high-grade managers.

"I spent seven years taking my doctorate in banking in Moscow," said Liu Hongru, Dep Governor of China's central bank, the People's Bank, and the man in charge of its day-to-day working. What will he have learned about the role of banks in indirect control of the economy there? Many others, also trained in Moscow, such as Vice-Premier Li Peng (tipped to succeed Zhao Ziyang as Premier), are engineers, not a notably entrepreneurial class.

Yet it is hard to imagine the "open door" and the reform policy going into total reverse. It has brought too many benefits. Foreign trade and investment have boosted key industries such as oil, coal, telecommunications, machinery, electronics, textiles and hotels. Contracts for various kinds of foreign investment now total nearly $15bn.

Under the rural reforms, the peasants are far better off than they were eight years ago, and both they and the city dwellers need the free markets and the middlemen who serve them.

The urban reform is required to bring the same growing pros-

CONTINUED ON PAGE 3

● At 81, Deng Xiaoping is pushing ahead with bold reforms that will shape the lives of a billion people.

### Contents

# Year clouded by discontent

## Political trends

ROBERT THOMPSON

IN A year the present pragmatic Chinese leadership should have been able to score as a clear political victory, enduring economic problems and unexpected public displays of discontent have blurred the result.

Student unrest has been of particular concern to a government that has elevated the status of education and the educated, only to find itself having to deal with a series of student disturbances, disturbances that, according to the sometimes well-informed Hong Kong magazine, Cheng Ming, provide the Communist Party with its "gravest challenge since the downfall of the Gang of Four."

Diplomats are agreed that in the last couple of months there has been a "general tightening" of government policy and a stressing of the importance of ideological purity. They have also noticed that the words "class struggle," an old Maoist favourite, have resurfaced.

*All this in the same year the* paramount leader, Deng Xiaoping, and his fellow pragmatists secured the mass resignations of 64 elderly officials during a special party conference in September to make way for younger and better educated leaders, most of them apparently Dengists.

And in the year six new Politburo members were handpicked by Deng and his fellow travellers. And when the speeding economy, itself a serious political problem, slowed slightly, after overcoming what the People's Bank of China president, Chen Muhua, recently revealed was "a very grave financial situation" early in the year.

Student unrest has caused anxiety this year. Above, ranks of secondary school scholars in Peking limber up for exercises

Despite having a strong hold on the party, Deng clearly does not have everything his own way. *The opposition is strongest* from those within the leadership who consider the bold economic reforms have gone too far too quickly and that the country is in the midst of an ideological malaise.

Among those is the senior conservative Politburo member, Chen Yun, 80, who himself did not heed the call for the elderly to resign and whose presence is regarded by diplomats as a significant reason for Deng Xiaoping to stay at the helm to steer a course for the reforms.

Chen took advantage of tha Special Party Conference to make known his displeasure with various aspects of the reforms and to highlight what he considers to be a growing ideological poverty in this time of supposed growing material wealth.

While Deng has encouraged reliance on market forces to control production and has overseen the relaxation of central controls enterprises, Chen called for tightened central control, and observed that "market regulation involves no planning, blindly allowing supply and demand to determine production."

Chen also criticised the claimed existence of many "10,000 yuan households," which are cited by reformists as an example of how their economic policies have brought prosperity to Chinese peasants — "Actually, there are not that many, our media's reports are divorced from reality."

Another who has shown that his enthusiasm or tha reforms is not unbounded is the Chinese President, Li Xiannian, who in the latter part of the year made public his own doubts about the lack of ideological direction.

Despite their statements, there is little doubt that Mr Deng has the numbers in the party, and the tightening of policy in areas such as the arts and the over-emphasis of ideological purity would not have happened without his imprimatur.

Diplomats have two differing theories to explain the tightening. The first is that the pragmatists have been tacking, as they often have in the past, in a bid to head off any sustained attacks on their policies by the conservatives or "reservationists" — those who have *reservations* about present policy.

The other is that the reservationists are much stronger than has been generally believed, and the flexing of their muscles has led to the bridling of the pragmatists and tighter central control, which, one western diplomat said, is "across tha board."

Certainly tha pragmatists are acutely conscious of ammunition that can be used against their policies, benca an extraordinary series of meetings between government leaders and students in a bid to take the heat out of campus unrest.

The student protests in several cities followed the August visit of the Japanese *Prima Minister*, Yasbuhiro Nakasooe, to the Yasukuni war shrine, which bonours the Japanese war dead, and had a strong anti-Japanese flavour.

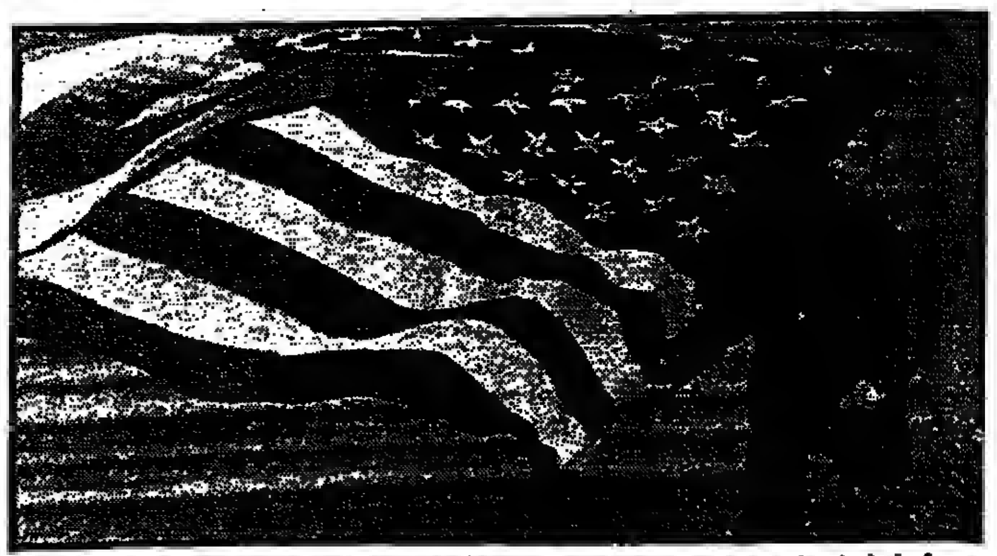
But the protest also provided a rallying point for all manner of dissent, some of which was shown in posters displayed at Peking University. There were posters with anti-Japanese *messages, but there* were also posters calling for a true democracy and posters condemning the reform policy.

For the Chinese Government, the student disturbances hava been at least an unacceptable distraction and have provided the reservationists with unforeseen rounds of political ammunition. That tha government has taken tha disruption very seriously is shown in newspapers repeatedly linking the unrest to the campus chaos and mayhem of the Cultural Revolution.

The Government is also vulnerable on the issue of corruption, which Chen Yun has highlighted as a source of shame to the nation. In through the "open door" has come bribery, rampant *currency* crime, speculation and tax evasion, with many party and government officials among the offenders.

In late November, during one sitting of the Peking intermediate court, 23 government officials were sentenced to jail terms ranging from one to 15 years. Again the Chinese leadership had been forced to take tough action to safeguard its policies from sustained attack.

The leadership has been successful in disarming potential dissenters among the senior ranks, and the liberal economic reforms are still in place, but the political cost rises with every new problem.



A Chinese official struggles with an American flag as it blows in high winds before the welcoming ceremonies for President Reagan to the Great Hall of People in Peking. Relations with the US are not devoid of friction.

# Contacts improve with Soviet Union

## Foreign policy

JUREK MARTIN

CHINA'S FOREIGN POLICY, according to Zhou Nan, the deputy Foreign Minister, has a simple premise: to defina the objectives. These now are, ba goes on, to seek "long-term peace." *All* bilateral relations then follow naturally.

Disingenuous though it seems on paper, Zhou's logic is consistent with much of Chinese history. As recently as the last century, the basic premise was that all foreigners were "barbarians" and that the objective was to extract tribute from them.

One hundred years later, the perceived threat was from the Soviet Union and the goal was to combat Soviet "hegemonism," in which the normalisation of relations with the US and Japan was an integral element.

Today, the Soviet Union appears less menacing to China. Although Zhou argues that the superpower rivalry remains in some cases acute, the factors *militating against* war on a global scale may have tha edge on those favouring it. But since China's interest in peace is fundamental, it must work through a more omnidirectional non-aligned foreign policy further to minimise the risks of conflict.

This includes "normal" relations with the superpowers, though never to the point, Zhou goes on, of entering into "an alliance or strategic relationship with either." Indeed, at a state-to-state level, contacts with the Soviet Union have improved markedly over the past 12 months in particular.

They are not, however, anything like "normal." Recent increases in trade and official and cultural exchanges have done *nothing* to *solve China's three* outstanding complaints against the Soviet Union—over its backing of the Vietnamese invasion of Kampuchea (Cambodia); its occupation of Afghanistan; and over tha continued presence of Soviet troops on China'a Mongolian borders; and at Cam Ran Bay in Vietnam. All three, the deputy Foreign Minister maintains vehemently, threaten China's security.

Relations with the other superpower, the US, are also not devoid of friction, though they tend to be less intransigent than those with the Soviet Union. From the Chinese perspective, which has some justification, the problems are much more of Washington's making than Peking's.

Thus China still takes offence at what it considers US "interference and obstruction" over the future of Taiwan. It points out endlessly that though the US endorsed the settlement with Britain over the future of Hong Kong, it objects when China seeks to apply the same "one country, two systems" principle to Taiwan.

The US right wing has also raised Chinese hackles in other ways—in trying to cut off US contributions to international population control programmes in China because China allegedly practises forced abortions and, most recently, in Senator Jesse Helms'a blocking of Senate approval for the new US Ambassador to Peking, Mr Winston Lord, largely because Mr Lord has been a close associate of Mr Helms's bete noir, Dr Henry Kissinger.

But the Chinese government has displayed a remarkable ability to rida *with* the provocative punches from the American Right wing, even though these have packed more power since tha conservative President Reagan took office in 1981.

Vice Minister Zhou is philosophical about this; ha recalls a recent exchange with a heavyweight American visiting delegation brought to China by Time Magazine. He delights in recounting how Time's managing editor was obliged to admit in the end that "consistency is not a characteristic of US foreign policy."

Whatever China's belief in its own consistency, it also has to be said that its own foreign policy, too, is not above taking some surprising twists and turns. The unanticipated recent deterioration of relations with Japan is ontlined at length below.

Eqnally unpredictable is the extent to which contacts with South Korea have developed, albeit unofficially, *since* the two countries were hrought together by the improbable circumstance of the hijacking of a Chinese airliner to Seoul two years ago.

*Officially*, the relationship with North Korea remains solid. China has never publicly deviated from support for President Kim Il-sung's proposal for a Korean Confederation, to be preceded, presumably, by a tripartite dialogue between the two Koreas and the US.

Nor has it hudged from Pyongyang's position that the negotiations be limited to the three parties. It claims it is no longer a direct party to the Korean issue because its troops were withdrawn years ago. If it were included, both the Soviet Union and Japan would have to be added as well, rendering the process more complex.

Beneath the surface lie some ponderables: the extent to which China can and does influence the regime in North Korea and whether or not Pyongyang listens more to China or to the Soviat Union (which itself, under Mr Mikhail *Gorbachev, may be entertaining* policy changes).

The only reality is that after 30 and more years of impasse, there is at least a form of dialogue between North and South and some informal contacts (and a lot more indirect trade) between China and the South.

The Gorbachev factor may also, in time, influence another Chinese *preoccupation*. China has intermittently warned throughout tha 1980s that it is prepared to teach Vietnam a "second lesson" (though the first, the 28-day Chinese invasion *in 1979, may* have been more instructive for what it revealed about the shortcomings of the Chinese Army).

But the threat grows less potent as China's relations with both superpowers evolve, no matter how slowly. Were the new Soviet leader to exert a moderating influence on Vietnam, it might disappear entirely.

On Hongkong's broader system of elections, introduced this year, Zhou commented that "we should be very prodent in trying to preserve stability *in Hongkong," but* he *made no* criticism of developments thus far.

In this he differed from China's chief representative in Hongkong, Xu Jiatun, who in November attacked the British for their moves in this direction. However, the next meeting of the Sino-British Joint Liaison Group on Hongkong passed off without further criticism, so Xhou's caution appears to be representative of the main Peking line.

Elsewhere in Asia, and indeed further afield, the thrust of the *new direction* of Chinese foreign policy—the pursuit of peace and stability—is more clearcut. This year alone some old hatchets bave at least been sheathed, if not completely buried, with Indonesia and Malaysia.

Relations with another large neighbour, India, have experienced touchy moments, most notably when the Indian Army general ataff accused China of providing test facilities for Pakistani nuclear devices. Mr Zhou denounced this as "sheer fabrication."

He maintained that though China may not be a signatory to the nuclear non-proliferation treaty (a fact which complicated ratification hy the US of its nuclear treaty with China), *it has* pledged not to *further* the spread of nuclear weapons.

There was evidence that Mr Rajiv Gandhi, the Indian Prime Minister, believed in China's good intentions, he added.

High costs force sweeping changes in the structure of the People's Liberation Army, but resistance from 'old soldiers' poses a serious problem,

# Radical reforms under way

## Military policies

ELLIS JOFFE

A Chinese soldier takes time to photograph one of his fellow soldiers as he poses by light artillery pieces in Peking

THE TRANSFORMATION of the People's Liberation Army (PLA) into a modern professional force, which has been under way since the turn of the decade, was given unprecedented impetus this year by the intcoduction of sweeping reforms in its size and structure.

Designed to make the PLA more efficient, less costly and better led, the reforms heralded a major shake up of the entire defence establishment. Althougb still in early stages, these reforms have, together with previous changes, already altered tbe PLA of Maoist days beyond recognition.

Spearheading the most recent reforms was the decision of the Chinese leadership to cut troop strength by a million men, or about 25 per cent, in the course of 1985 and 1986.

For years the Chinese had stressed the need to reduce the size of the armed forces, but the magnitude of the projected reduction was stunning by any standard and particularly in an army whose doctrine and strategy had been founded on the premise that superiority in manpower could offset inferiority in firepower.

The main reason for such a momentous move was financial. The PLA's weapons are largely obsolete, but cash shortages and awesome costs preclude substantial rearmament. The leadership, therefore, bas settled on a policy of slow and selective re-equipment as well as refinement of existing weapons. Consequently, military expenditure fell for two years after the Vietnam war of 1979 and remained steady until 1984 at 17 to 18bn yuan.

The professional mililitary have accepted this state of affairs but have periodically pressed for more money. However, an increase in defence spending commensurate with needs is not forthcoming.

In 1985 the military bndget rose slightly to about Yuan 18.6bn, but fell sharply as a proportion of the national budget—the military the lowest share of national spending in the post-Mao period, and probably the lowest share ever.

Funds for weapons, therefore, have to be found mainly by saving elsewhere. Since operating costs absorb about 35 per cent of the military budget, a trade-off has to be made between men and matériel.

Sucb a trade-off is facilitated by changes in Chinese threat perceptions and military doctrine. In recent years the Cbinese bave considered the danger of a Soviet attack to bave greatly receded. In particular, they bave displayed a growing confidence in the ability of their small nuclear force to deter a Soviet nuclear strike.

Tbus, in the unlikely event that war breaks out, the most probable threat to China would be a limited ground invasion by conventional forces.

An attack of this sort, according to China's new strategic doctrine, will be met not by a Maoist strategy of "people's war" in China's beartland but by a conventional defence close to the border and based on positional warfare and swift counter-attacks. Such a defence requires a smaller army—but an army equipped with modern weapons and capable of fighting a modern war.

Reducing troop strength is viewed by the Chinese as an important step toward building such an army. It will accelerate the transformation of the infantry into a composite force, make command and control more suitable to modern warfare, and will strengthen the reserve system. It also enables the Deng leadership to weed out large numbers of old and incompetent officers wbo block the promotion of pcofessionally fit commanders and pcovides an opportunity to dismiss conservative veterans who have ideological qualms about Deng's policies.

### Opposition

Not surprisingly, the cutback has run into some resistance from officers wbo continue to view a large standing army as China's prime military asset.

The most formidable opposition seems to bave come, however, from officers slated for retirement and fearful of losing the power and prerequisites that derive from active command. The Deng leadership, deterred from its effort to re- nevertheless, has not been sbape the PLA.

The latest results of this effort became apparent during the year. One was the accelerated retirement of veteran officers. This is a prerequisite to streamlining the PLA and infusing it with new blood. However, getting the old soldiers to fade away bas been a major problem. Since there is no formal rule for retirement, the leadership chose to coax rather than coerce ageing officers to retire by generously cusbioning their departure.

How many have actually departed is not known, but the number scheduled for retirement this year and next seems to run well over 100,000.

Far-reaching organisational and personnel cbanges were also carried out. The number of Military Regions was reduced from 11 to seven by merging the Wuhan Military Region with Jinan, Lanzhou with Urumqi, Chengdu with Kunming, and Fuzhou witb Nanjing.

Four of the seven commanders were new appointees and numecous new faces appeared in the commanding organs of the Regions. One prominent casualty was Li Desbeng, wbo bad served for 12 years as commander of the strategic Sbenyang Military Region and bad been a powerful military figure.

Leadership bodies under the PLA Ceneral Staff—the Ceneral Staff Department, the General Political Department, and the General Logistics Department—as well as various services and arms were extensively resbuffled and trimmed.

The average age of officers in top-level command organs was reportedly lowered from 65 to 57. Exemplifying the new breed of officers with strong professional backgrounds were three commanders in their forties and early fifties—He Qizhong, Zhon Wenyuan, and Zhong Sbunliu—who were appointed deputy cbiefs of the three departments under the General staff.

The air force, which has had difficulties with developing a modern fighter-interceptor, was a special focus of reform. A new commander, Wang Hai, was appointed instead of Zhang Tingfa. The first commander with a combat background, Wang was assigned the task of redncing manpower by 120,000 men—some 40 per cent.

The chief purpose of sucb a massive cut is to save funds for the development of modern tecbnology and to improve training. Tbe Chinese also continued to purchase small quantities of much-needed bigh technology items for the air force and other services.

The enhancement of the PLA's professionalism bas been paralleled by a decline of its political influence. This decline was most visible in the smaller number of military men in top policymaking bodies. Tbree veteran military leaders—Ye Jlanying, Nie Rongzhen, and Xu Xiangqian (who died later)—were dropped from the new Polithuro, bringing military representation down from nine out of 26 members in the previous Politburo to tbree out of 20 in the present one.

Ye, in particular, had barboured donbts abont Deng's national policies and bad become a rallying figure for officers unbappy with the radical economic and social reforms. His retirement bas removed their most powerful and prestigious spokesman and bas substantially weakened the position of dissenters in the armed forces.

Tbe PLA's ability to influence national affairs bas been furtber weakened by a reduction of its representation in the new Central Committee—from 19 per cent in 1982 to about 13 per cent. This reduction is acceptable to professional officers, who want to get on with their military job. These officers support Deng's reforms.

In spring, soldiers of tbe PLA were issued new uniforms—smarter, better fitting, and of bigher quality—a symbolic pointer to the new look of the Chinese armed forces.

## NEW POLITBURO MEMBERS

China's ruling Communist Party elected six new full members to its Politburo and five to its Secretariat this year. The new Politburo members include Hu Qili (top left), tipped by diplomats to hecome the next party chief, and Li Peng (top right), who is likely to be China's next Premier. Also appointed: Tian Jiyun (lower left) and Wang Zhaoguo (lower right)

# China at the crossroads

CONTINUED FROM PAGE 1

perity to the towns. With the far more complex industrial economy, this will be more difficult, and mucb rests on Peking's eventual ability to bring its mainly 1950s prices into line with reality and world markets so that a market economy would be more soundly based. This potentially disruptive step is likely now to be approacbed witb extreme caution.

It will be difficult for some months at least to talk in China about economic reform and its corollary, making profits, without risking accusations of undermining the campaign for "socialist spiritual civilisation" which took off in the wake of conservative criticism at the September party meeting. It will also be difficult for Chinese officials to import anything but the most necessary technology to avoid charges of wasting foreign excbange.

But if Deng and his men are to resist pressure to return to central planning, tbey will bave to persuade Cben Yun and his allies that they can carry on without causing economic cbaos or widespread crime. At the very least, that means educating officials in how to behave under a looser rein.

If the past year is any guide, that will not be an easy task.

# Deng keeps his fingers crossed

**DENG XIAOPING'S economic reforms have struck difficulties this year. While production, especially in industry, has continued to boom, the attendant evils of inflation, shortages, fraud and even corruption have flourished in the acquisitive atmosphere generated by Deng's "get rich" slogan.**

Since the Spring, China has increasingly tried to enforce belt-tightening measures in which construction funds, foreign exchange and official perks such as lavish dinners would be more closely controlled. But it remains to be seen whether Peking's move to use indirect levers such as taxation and interest rates to control the economy instead of traditional central planning will get successfully off the ground.

## The economy

COLINA MacDOUGALL

It is clear that Deng and his reformers have no intention at present of backing down in principle from their policies, despite the difficulties and criticism they have called forth from more conservative Chinese leaders.

The message inherent in the floods of explanatory articles in the Press since this year's September special party conference at which the criticisms were first openly voiced is that the partial reforms already implemented cannot be successful until the whole system is overhauled.

Deng's troubles began with the first steps towards liberalising the urban industrial system taken last year. Encouragingly, rural reforms, under which peasants were given virtually total freedom to grow what they thought appropriate and to sell at higher prices to the state or on free markets, had already generated a solid base of reliable food production.

In October 1984 the party's central committee therefore issued a cautious directive increasing industrial and commercial enterprise authority, releasing some enterprises from central ministry control and allowing some prices to float.

At the same time, under financial reforms, enterprises were permitted to retain a share of any foreign exchange they earned, and to raise loans and pay taxes instead of receiving government grants and handing over all earnings.

These moves came as the peasants began to use their new freedom to start up rural industry to relieve population pressure on the land. The consequence was a huge outburst of building, production, borrowing and expenditure, especially of foreign exchange.

It also meant a drop in grain acreage, a factor of growing concern during the year as bad weather reduced likely yields. Questionable activities such as dealing in imported cars, the involvement of party officials in running businesses and even outright bribery and fraud took off alarmingly.

The Government's attempts at reform of prices (many still unchanged from their 1950s level, reflecting neither true costs nor scarcity value) fuelled the already burgeoning inflation. In October 1984, reforms decontrolled the sale of about half the industrial and agricultural commodities previously sold at planned prices.

In January this year, the grain marketing system was liberalised. Foreigners in Peking reported that many foodstuff prices in the shops jumped 50 per cent in the first two months.

Average inflation in the big cities was admitted to be over 11 per cent in the January-August period, and possibly was much higher. Trouble was avoided because Peking pays subsidies to town dwellers to buffer the increases. But these, along with subsidies paid to the farmers, make up 30 per cent of government expenditure. This is a growing burden.

In March the situation was running out of control. When Premier Zhao Ziyang made his customary report to the National People's Congress that month, he noted that the money supply had grown at an alarming rate, about half in December alone. The Government payroll had risen 21 per cent, and many enterprises had paid excessive wage rises and bonuses out of bank loans, which in the year had risen nearly 30 per cent.

Figures published separately showed that foreign exchange holdings, at over $16bn the previous October, had dropped to $11.3bn by the end of March as enterprises from provincial governments down used their new freedoms to buy cars, minibuses, or production lines for TVs, refrigerators and washing machines—or sometimes the consumer hardware itself.

It was not easy for Peking's leaders to attack these problems. Gyrations in price continued to affect the economy through the summer. Song Tingming, of the Commission for Restructuring the Economy, told the Financial Times that, compared with the same month last year, inflation rates in Canton and Peking in July were respectively 23 per cent and 22 per cent. Industrial growth for the first half year was 23 per cent, compared with a planned figure of 8 per cent, though this slowed to 14 per cent in July-September.

The year's average is still likely to be around 18 per cent. End-June foreign exchange reserves figures, normally published soon after the end of the quarter, appeared three months late and recorded a drop to only $10.8bn.

This fall reflected a worsening trade situation. Demand in China not just for consumer goods but also for construction materials such as steel proved insatiable. Chinese exports dropped as protectionism held back sales of textiles and the stagnant world oil market restricted petroleum exports.

China's Ministry of Foreign Economic Relations and Trade released figures in late October showing imports of $22.5bn and exports of only $18.1bn for the first nine months of 1985.

Top men in Chinese economic and financial world: Liu Hongru (left) Dep Gov of China's central bank, the People's Bank of China, who is in charge of its "concrete work." Right: Song Tingming, of the Commission for Restructuring the Economy, the body responsible for planning and implementing China's economic reform

While China makes comfortable earnings on tourism, shipping and similar which help fill the gap, there is concern over the future because of the problems involved in raising exports. The sensitivity of the trade issue was underlined by an unusual public squabble in September when the State Statistical Bureau published an estimate of $18bn for the country's expected 1985 trade deficit.

MFERT claimed the figure was grossly wrong, and diplomats in Peking believed the SSB had simply projected the first half-year's figures forward without adjusting in accord with government measures taken to amend the situation. But the SSB refused to recant.

Accompanying these problems came disenchantment with the Special Economic Zones (SEZ) and the 14 cities declared open to foreign investment in spring 1984. The leading SEZ, Shenzhen, had been a centre of smuggling, illicit car imports and currency black markets without obviously promoting the sophisticated industries they were originally designed to nurture.

Deng referred to them in the summer as an "experiment," in contrast to his earlier enthusiasm. State Councillor Gu Mu announced that ten of the 14 cities should slow down their development so that investment should be concentrated on the remaining four.

These problems were aired at September's special party delegates conference. The meeting was called to retire a number of elderly officials and appoint younger blood, at the same time announcing proposals for the seventh five year plan, due to start next year. But it became a forum for senior conservative Marxist leaders Chen Yun and Head of State Li Xiannian to attack, and Deng Xiaoping to defend, the errors of his economic policies.

It could be said that Deng won the round, since he was able to appoint a selection of younger leaders of his own choice. In addition, the seventh plan proposals made few concessions to the conservatives. The document was more a policy statement than a plan, but continuation of the reform was the keynote.

It emphasised the development of more realistic prices, freer enterprise, improved quality, foreign investment and more service industries while looking to cuts in planning and direct control. Yet the defensive tone of Press commentaries in following weeks suggested that criticisms continued.

In November, Vice-Premier Li Peng assured the National People's Congress standing committee that the leadership had begun to overcome the difficulties by "initially" controlling investment in fixed assets, cutting consumption funds, reducing industrial growth rates, putting the brakes on loans and currency circulation and supervising foreign exchange usage more closely. But it was too early to tell whether these measures had been successful.

Whatever the problems, there is no doubt that standards of living and productivity have risen hugely in China since 1978. Li Peng claimed that national income had risen 10 per cent each year in the sixth five year plan period (1981-1985). At the same time, what he called "the people's consumption standard" had gone up by 7 per cent a year.

If the leadership can prevent the dishonesty, muddle, inflation and waste which has accompanied the liberalisation so far, Deng's road to prosperity will prove a better one than any China has tried so far.

**China's economy**

| | 1985 plan | 1984 Yuan bn | % incrse. over 1983 |
|---|---|---|---|
| Total value of social output† | n.a. | 1,238.5‡ | 12* |
| Gross value of agricultural output | 6% | 330.3 | 14.5 |
| Gross value of industrial output | 6% | 703 | 14.0 |
| Light industry | | 337.4 | 13.9 |
| Heavy industry | | 364.1 | 14.2 |
| Total retail sales | Yuan 378bn | 335.7 | 17.8 |

* In constant 1980 prices.
† Sum total of agricultural, industrial, construction, post, telecommunications, and commercial.
‡ In 1984 prices.

# Tough line on lending

## Banking and finance

ROBERT THOMPSON

HAVING EXHORTED the masses to "get rich through labour," the Chinese Government, in the hunt for development funds, has been attempting to raise banking consciousness and convince those who have accumulated some riches to invest them.

In recent months, the People's Bank of China, the central bank, has lifted deposit interest rates for the second time this year, and in Shanghai, one bank has turned to housing loan lotteries with a prize of an apartment—it is a means of encouraging people to save and of raising funds for housing construction in a city with a chronic housing shortage.

That a bank is allowed to run a loan lottery is a symptom of widespread banking reforms in China in the past year, reforms that the Chinese leader, Deng Xiaoping, hopes will "make banks function like banks."

The five major subsidiary banks—the Bank of China, the Industrial and Commercial Bank, the Agricultural Bank, the China Investment Bank, and the Construction Bank—are allowed to compete in a few areas, though they must conform to Peking's wishes in what is still ultimately a planned economy.

A lending spree that began in the second half of last year certainly did not accord with Peking's wishes and contributed to the overheating of the economy. Blame was put on provincial bankers, who went to great lengths to top the lending ladder. The effects showed in lending last year, which was up 29 per cent on 1983, while growth in that year was 17 per cent.

The spree prompted the people's bank to tighten its hold on lending to rural industries, which accounted for 50 per cent of all rural bank loans last year, and to stress the need for loans to be made to worthwhile projects in line with the government's modernisation programme.

An article in the "Peoples Daily" in late November cited several cases of rural enterprise ineptitude, with ambitious but incompetent enterprises borrowing heavily to start businesses only to see them derailed by their inexperience.

The case of Haotun Village in Hebei Province was given as an example of poor fund management. The villagers, seeing that a neighbouring village was making good money out of fleeces, invested 20,000 yuan (US$6,500) in a fleece factory.

"The raw material should have been 'fleece without long hair' a superior variety, but in fact when the factory went into production it was discovered that the fleeces were the inferior 'long hair' variety. Many townships know nothing about costing and business, and make rough calculations based only on wishful thinking," said the paper.

Liu Hongru, deputy governor of the People's Bank of China and the person in charge of its day-to-day "concrete work," as he put it, says the bank has acted to slow down lending as "a lot of banks had been competing against each other to lend money."

He says the problem arose because "we lacked experience." Since having learned from the mistakes, the bank has let provincial banks know that they can no longer expect the central bank to carry their losses, as had been past practice.

Provincial banks are now also required to deposit a fixed sum with the central bank so that, as Mr Liu says, "we can try to increase our control over the banks." Those banks must report more frequently on foreign exchange use, as poor monitoring contributed to the slump in foreign exchange reserves from US$16.3bn in October 1984 to $10.852bn at the end of June.

Mr Liu says the foreign exchange slump has been arrested and the "biggest problem in macro economic control" is that many people still demand funding for new enterprises. The Haotun villagers are a prime example of why the bank has taken a tough line on lending.

He maintains that the tough line has worked, but has claimed victory too early. Investment in capital construction in the first nine months of this year was 56.8bn yuan, up 38.6 per cent on the same period last year, though the increase in September was a lower but still excessive 23.7 per cent.

As for foreign banks, Mr Liu, who did post-graduate study in banking in the Soviet Union, expects an increase in the number of banks permitted to open branches in the four special economic zones (SEZ).

"But for the opening of foreign banks in other parts of China, we want to look at the experience gained in the economic zones," he says. A foreign bank representative in Peking expects to wait a "long time" before his institution is allowed to take an active role outside the SEZs.

The People's Bank has established itself as the final arbiter of the right to issue bonds and published a directive in October informing other banks that they could not issue bonds without its approval.

This has been an active year for bond issues overseas by Chinese authorities, with issues in Deutschemarks, yen and Hong Kong dollars. Liu says that further issues will depend on the state of the bond markets, which his bank is watching very closely.

He denied reports that Chinese officials have been negotiating in London on the future of US$70m in bonds defaulted after the communists won power in 1949. Settlement of the "problem left over from history," as the Chinese call such matters, would open the way for a sterling issue.

# Output soars to record levels

**FUELLED by Deng Xiaoping's economic reforms and insatiable consumer demand, China's industry has rocketed this year. In the first half, it hit an astonishing 23 per cent grnwth rate, compared to just 14 per cent in 1984—itself criticised as much too high.**

*This year's figure was made credible by the constant* sight of thousands of Chinese peddling away from their local stnres with electric fans, washing machines, televisions and tape recorders stacked on their bicycles.

## Industry and management

COLINA MacDOUGALL

Higher wages, the new independence allowed to factories and the heavily promoted growth of rural industry all conspired to boost output The chance to makc profits encouraged investment in new equipment. This in turn boosted plant extensions and otber construction in the January-June period to 44 per cent above the same months last year, compared with the planned 1.1 per cent for the whole year.

While industrial growth slowed from 23 per cent in January-June to t4 per cent in September, the figure was still well above the planned 8 per cent. It is expected by Chinese officials to end at around 18 per cent for the year.

The biggest production increases were in consumer goods surh as refrigerators which nearly tripled their 1984 output, and TV sets which rose by 75 per cent. Duplication of imports such as colour TV production llnes wbich contributcd to the rise was pinpointed by the leadership as an important example of how foreign cxchange bad bcen misused during the year.

Heavy industry nowbere near kept up with the consumer boom but it registered respectable increases. Coal and steel were botb up 11 per cent and 7 per cent respectively in the first nine months.

The figures on their own did not, however, reveal the real workings of the economy, since both sectors were in other kinds of trouble. An estimated 50m tons of coal was reported to be bottled up in the coal rich north west of China awaiting transport. The low quality of Chinese steel and delays in supply pushed steel purchases from Japan to a probable S3bn for the whole year.

These factors underlined two major problems in China's industry, the acute shortages of transport and good quality semi-processed materials. A third major problem, the power shortage, was intensified by the sudden rise in demand and drastically affected the energy-starved eastern region. Chinese officials said this meant equipment in the area was operating at 20 per cent below capacity.

On the credit side, Vice Premier Ll Peng claimed in November that ligbt and beavy industry were now basically balanced. This rectified a situation prevalent almost since the 1950s when consumer interests were neglected in favour of Stalinist-style beavy investmentin steel and machine building.

### Key issue

Trchnical upgrading of Chinese industry became increasingly a key issue. This was given a considerable boost In 5eptember with the start up of Phase One of the Japan supplied 3m ton a year Baoshan steel works near 5hanghai. But Baoshan had experienced buge costs and long delays, an important factor in Peking's switch from modernising with turnkey plants to sclective pnrcbase of equlpment for existing factories.

Under this "technical transfer" policy, Peking favours joint ventures, co-operative agreements with foreign companies or straight purchase of limiled items. Doing it this way, it bopes, will bring in modero management methods to improve what is currently an abysmal aspect of Chinese industry.

Peking's own venture into boosting management, the *urban economic reform* launched ln antumn 1984, was cut back during the summer because of economic overbeating. Factory managers who had briefly been given the freedom to expand their works or buy from abroad lost it again.

"It's quite difficult to manage this factory," says Zhu Zhinan, deputy director of the administrative office of the 6,000 strong Nanking Radio Factory workforce.

"It's not as if the director owned the plant—he bas to get permission to build new workshops or import equipment. That's a great bandicap."

The financial reforms, under wbich factortea must ask for loans, not grants, and pay taxes instead of remitting all profits to the state, bave not been cut back thougb the loan system is to become more searching.

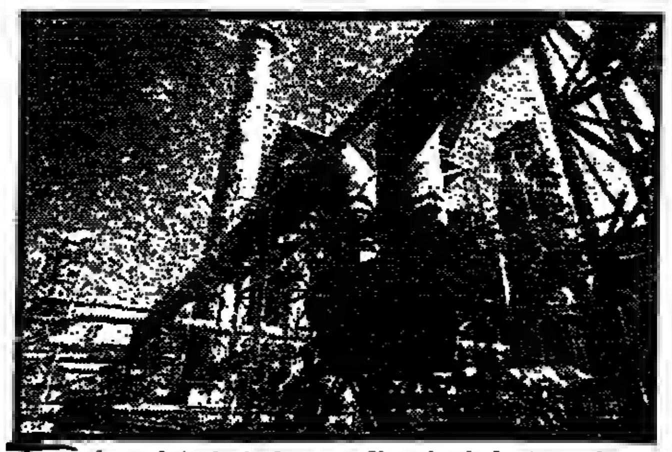
"Our officials will now make feasibility studies of projects put up for loans," say managers from the Nanking branch of the Bank of China.

Heavy borrowing—sometimes used simply to pay wages and bonuses—was an important cause of the economic overbeating. But pressure is on from Peking on the banks to say "No" wbere necessary.

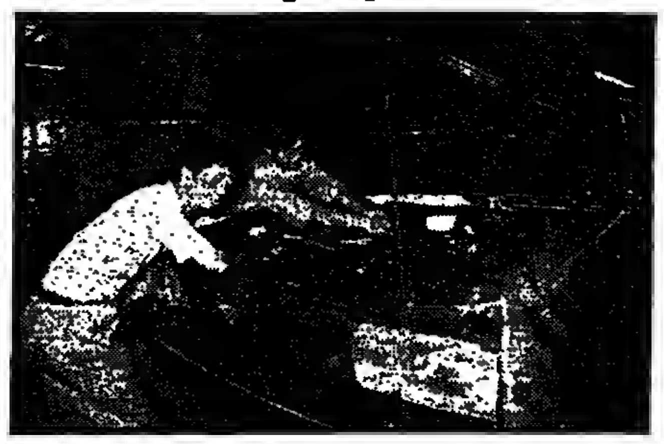
The impact of the tax reform is still uncertain. Peking has brought in a two-tier system with a first stage 55 per cent companv tax. In the second stage, if it deems an enterprise is unfairlv making too much monev—"for instance, automobile factories," savs Song Tingming, of the Economic Restructuring Commlssion—a regulatory tax is applied.

"That is necessary in our still irrational price structure," be adds.

China is still experimenting with its management reforms. But until lt gets them right, and can induce its often ignorant officials to use them correctly, economic blowouts such as this year's may continue to be a feature of its industrial landscape.



Examples of technical upgrading in industry: above, the steelworks at Baoshan; and, below, a car production plant in Shanghai. Peking favours joint ventures with foreign companies.



### China's Industry

| | Jan-Sept 1985 | 1984 | 1983 |
|---|---|---|---|
| Gross industrial ontput value (bn yuan) | 614 | 702 | 609 |
| Light industry (bn yuan) | 306 | 337 | 295 |
| Heavy industry (bn yuan) | 308 | 364 | 313 |
| TV sets (m) | 12 | 10 | 7 |
| Washing machines (m) | 7 | 6 | 4 |
| Refrigerators (m) | 0.96 | 0.54 | 0.19 |
| Coal (m tons) | 626 | 772 | 715 |
| Electricity (bn kwb) | 301 | 375 | 351 |
| Crude Steel (m tons) | 35 | 43 | 40 |
| Motor vehicles (m) | 0.34 | 0.32 | 0.24 |

Source: State Statistical Bureau communiques.

# War on corruption

## Campaign in Canton

JUREK MARTIN

JOURNALISM in China is still but a distant cousin of its Westero counterpart. Television and newspapers are tightly controlled by the state and the Communist Party and remain principally instruments of propaganda, much of which makes for heavy viewing and reading.

But ln the China of today tbere is one subject, corruption, in which the interests and policies of the state and the existence of a controlled press combine to produce at least the illusion and possibly some of the substance, of classic Western style Investigative journalism at work.

A good example of this is Canton's (Guangzhou's) lively afterooon daily, the Yangrheng Evening News. It conforms to type in that its six-member editorial board is appointed by the Party, but there are ways in which this four-page (sometimes elght), 1.67m circulation publication is cut from a different, albelt distinctly Cbinese cloth.

It ls consciously "popular" in presentation, according to Mr Li Zuoxing, deputy editor, from the edltorial board. Unlike rival Canton newspapers whicb write mostly for the cadres, the Yen pitches itself at the masses and claims to draw its strength from them.

It runs sbort, snappy stories, devoted to local, buman interest and publisbes a daily balf-page of sport. It even sent a reporter to Japan to cover an international women's volleyball championship.

It carries cartoons, takes advertising (Yuan 20,000 for a balf page) from both state enterprises and new private companies and carries a daily front-page column featuring readers' complaints and criticisms. It receives 40 such calls a day.

Above all, lt has sunk its teeth, with discernible relish, into corruption. It is taking lts lead from authority, wbicb has decreed that corruption is a national problem and a threat to the effective implementation of Deng's new economic policies.

Canton bad probably the juiciest national scandal on its own doorstep, involving Hainan Island car deals. Hainan, off the Guangdong coast, is one of the rountry's 22 "open" areas. As sucb, Peking allowed it the sperial privilege of being able to import, free of duty, foreign cars for local use on the island.

Hainan Island officials *arranged for the import of* 70,000 rars, a lot for a local population of 3m to 4m—many of them rural, ethnic minorities. Suspicions were aroused but by the time the authorities stepped in earlier this year, 12,000 rars had been re-sold at a profit to customers on the mainland.

Most of the customers, ironically, were state enterprises, to wbom a modern foreign car bad become both a necesslty and a status symbol.

The State Materials Bureau in Peking took possession of the remaining 58,000, some of which had been contracted for but not delivered. Tbe vehicles have been paid for and the Bureau is arranging for their distribution "in a unified manner."

There is still a debate over whether Hainan Island officlals were guilty of "economlc crimes" or merely misunderstanding official instructions, but several are now otherwise engaged.

The scandal had a nalional impact. Peking has barred virtually all foreign car imports, for at least until it disposes of its new possessions.

YEN's staff concede tbat this story was largely broken by the authorities, but with its appetite whetted, it has begun to seek other examples of corruption on own account.

Its most noteable campalgn was to uncover a housing redevelopment scandal in Canton. This involved the renovation of downtwn bousing and the temporary displarement of 100 famllies, all of whom had been promised a move back once reconstruction was complete.

*However, only 60 families* were accommodated: tbe other 40 apartments were mysteriously allocated to officials from the construction company and their friends, relatives and connections.

Yuan Xiaoxian, deputy chlef reporter, says the disgruntled displaced families tipped off the newspaper and prompted its first stories. The Canton Communist Party was initially not entirely pleased with the scoop, but ils own investigative team vindicated the newspaper.

This bas spawned further disclosures, especially in the housing sector, which is a local problem. The YEN's 50-strong reporting staff is kept on the move checking complaints.

The Yen's more staid competition seems also to have been infected. The Guangzhou Daily, published by the city communist party, ran to Mr Yuan's chagrin, a detailed story of how five employees of a state construction company had garnered Yuan 176,000 in bribes over the past two years.

The investigative mood ran be stopped as easily as it has been started. The privileges and protection that the upper cadre ranks still enjoy in China are such that many remain untourhable, regardless of what they may have done illegally.

But, for the present, there are some Chinese newspapers, like the YEN, devoled to something more titillating than the latest tractor output figures.

# A dramatic rise in production

## Agriculture

DAVID DODWELL

China was once one of the world's largest food importers, but has now become a net exporter. *Above:* vegetables being sold in a Shanghai market.

CHINA'S FARM output has risen rapidly in recent years—so rapidly that some foreign economists fear the country's planners may make the mistake of leaving the sector to look after itself.

The mistake would be an easy one to make. Areas of the country that were on the verge of starvation in 1979—like Anhui Province, inland on the Yangtze, or Guangxi in the south-west—are now making substantial surpluses of basic crops such a grain, cotton and oilseeds.

Rural incomes have tripled since 1979, and a substantial sums are being spent on new homes and improving rural road and rail links. From being one of the world's largest food importers, China last year became a net exporter, with major exporters of farm products like the US wary that China will soon become a significant competitor for export markets.

Nevertheless, Frederic Surls, an agriculture expert who heads the China Section of the US Government's Economic Research Service, recently warned that China's farm sector is entering "an entirely new environment of uncertainty and risk" as the Government tries to introduce a greater responsiveness to market forces, and to reduce its role in production and distribution.

### Flexibility

Mr Surls notes that the limited reforms of 1978 to 1983 improved flexibility and profitability in China's farming sector without altering the distribution system, or the safe environment in which the Government guaranteed to buy farm produce at fixed prices.

Reforms since 1983 have removed this risk-free environment—something that farmers in western economies take for granted, but is quite new to most *Chinese farmers*.

"Reactions to the adverse side of the new system have yet to be seen," he says.

Other economists warn that the strong gains that have come from demolishing the collective system and replacing it with the "rural responsibility *system*" cannot be expected to sustain such growth for very much longer—particularly since very little investment is being put into critical areas like irrigation, pest control, and the scientific use of fertilisers.

According to Nicholas Lardy, a U.S. *economist studying* China's agriculture, investment in agriculture has fallen by half since the late 1970s. Irrigated acreage has fallen, pesticide use has slipped, and collective and household investment is significantly down. "The Chinese have never invested *less* in agriculture than they are today," he said. "When *agriculture* was *growing* at 8 per cent a year with no investment by the state, why bother to discuss investment?"

Despite the fact that no one can pinpoint the exact reasons for China's strong agricultural performance, the improvement is dramatic and undisputed by foreign observers. *National* grain production rose to a record 407m tonnes in 1984, with wheat output 40 per cent higher than 1979 at 87.7m tonnes. The 1984 rice crop, at 178m tonnes, was 24 per cent better than in 1979, these gains have come almost entirely from *higher yields*.

China is now the world's sixth *largest producer of sugar, with* a 4.31m tonne crop this year, while cotton output, at about 6m tonnes, is 175 per cent above the 1979 level. Stocks of cotton are now understood to amount to over a year's national demand, and account for about half of the world's total cotton stocks.

Burgeoning surpluses have put a strain on storage space, and on the country's rudimentary transport system. Policies intended to create surpluses of staple crops like wheat or cotton are now being put into reverse in an attempt to persuade *farmers* to *shift* into more cash-crop production.

The Government has trimmed its planned purchases of grain to between 75m and 80m tonnes, from 100m tonnes last year, in its effort to reduce inventories. Perhaps even more critically, it is trying to reduce grain subsidies, which amounted to Yuan 18bn last year — about a *third* of total *government subsidies*, absorbing 15 per cent of budget income.

Farmers failing to shift into alternative crops may suffer a setback this year, as they are unlikely to be offered the attractive prices for surplus grain that they have been in the past.

Cotton producers are likely to be even more hard-hit if they are tardy in responding to the changed policies. The Government has said that it *will* buy just 4.25m tonnes of cotton this year—barely 70 per cent of the 1984 crop.

Since *state-controlled textile* factories have a virtual monopoly on national demand for cotton, farmers are unlikely to sell surplus production at anything but nominal prices. As a result, national production of both cotton and grain is expected to fall this year. The 1985 grain crop is expected to be about 4 per cent down at 390m tonnes. Acreage is likely to be transferred to oilseeds, vegetables, fruits, tea, tobacco, and raising livestock.

The surge in surpluses has *transformed* China into a significant exporter, particularly of corn, soyabeans and cotton. In Japan, 10 per cent of corn imports now come *from China*. Agricultural exports last year *amounted to* US$5.5bn, accounting for 20 per cent of China's export earnings. Since the export effort is partly due to problems of storage and internal transport rather than the result of a carefully articulated export *policy*, it *is* unclear whether this will continue indefinitely.

*During* the *same* period imports have fallen back. In 1984 they amounted to $3.2bn, or 13 per cent of total imports. This compares with $5bn, or almost 30 per cent, in 1981. Imports are expected to fall a further *$500m this year.*

Grain purchases have dropped from 15.8m *tonnes in 1982-83*, to an expected 7m tonnes this *year*. Import agreements with Argentina, Australia, France, Canada and the US have not been renewed.

At the same time, non-traditional agricultural imports have *risen*, and are likely to continue *rising*. *These* include logs and lumber, livestock, high quality pesticides and materials for the food processing industry. While China is now the world's third largest producer of chemical fertilisers, it is likely to remain a significant importer for some time.

Meanwhile, the changes taking place in the countryside are *substantial*. About 52m people in the countryside—about 14 per cent of the total rural workforce — are now employed in township industries rather than directly in agriculture. A high priority is being given to building up rural industries — like processing vegetables, fruit, meat and edible oils, manufacturing other *agricultural* products, and providing services to the rural *population* to prevent a drift of workers into towns and cities.

The Government now boasts *25m* "specialised households" that are essentially working alongside the state system, providing rural transport services and other rural services, and working in the *56,000* free markets across the country.

According to *US estimates*, retail sales outside the Government system accounted for 15 per cent of all retail sales last *year*, having risen from Yuan 3.3bn in 1978 to Yuan 50.4bn.

These developments are adding urgency to the need for the Government to improve China's rural infrastructure. About 40 per *cent* of the country's villages are still without *electricity*, and just 20 per cent of its meagre road network is metalled.

### Marketing

High priority is also being given to improving *marketing* —though without major improvements in long haul road and rail links it is difficult to *imagine how* far this can go. The specialised households are playing a major part in these changes, providing services the state sector is still too cumbersome to provide.

As Frederic Surls notes: "While the changes being introduced are essential to the long-term vitality *of the farm* sector, they are likely to generate *significant* short-run adjustment problems. These create substantial uncertainty about the overall growth of agricultural production, the mix of output over the next several years, and the future direction of *agricultural trade*.

"They also create major risks for the Government if the transition proves to be more difficult than expected, and if agriculture adds to the inflationary pressures that China is now experiencing."

Despite the successes of the past five years, now *is* clearly not the time to leave the agricultural *sector* to look after itself.

# Industry hit by power cuts

## Energy shortages

ROBERT THOMPSON

*THE LETTER-WRITER* to the "China Daily" newspaper conceded that she was fortunate to have a refrigerator, a symbol of modernisation in urban China. But, she asked, what is the use of having a refrigerator if power blackouts regularly spoil the food inside?

That disgruntled Peking resident is a victim of China's *acute energy shortage*, which, along with an under-developed transport system, are the most serious maladies afflicting the country's economic development. Both are top of the priority list for the seventh five-year plan, beginning next year.

There is just not enough energy to go around—50bnKW is the official shortfall this year —with factories lying idle for up to several months waiting for their quota of power to come on line, and others hit by sudden blackouts, halting production and disrupting supply schedules.

While the problem has been clearly identified, the Chinese Government has shifted its *focus* on the solution, with an ambitious nuclear plant programme to generate 10,000Mw by the end of the century apparently melting down to more modest goals.

The innumerable visiting energy delegations, who have noticed the emphasis on energy development and figure there is a dollar or two to be made in the process, are being told to think "thermal." It is explained that China is looking to build more small thermal power stations and is interested in foreign technology to facilitate their development.

*Emphasis* has also *shifted* on the development of oil and gas reserves because the finds thus far have not matched the great expectations of Chinese officials. The South China Sea has been a disappointment, though the Chinese are reluctant to admit it.

### Exploration

Nevertheless, they do admit to shifting their aim in the most recent round of bidding for exploration rights in the region from the hoped-for bonanza find to smaller reserves, and have offered incentives to foreign contracting companies to exploit those finds.

A spokesman for the China National Offshore Oil Corporation (CNOOC), Chen Bingqian, said a "more flexible approach" was taken during negotiations *this year for the second round* of bidding for rights in the area. The *lures* included a reduced "contribution fee," which all successful bidders are charged, and royalty payments designed to encourage the development of smaller fields.

Negotiations for second-round contracts should be finalised by early next year, Mr Chen *says*, and at the time of writing, three foreign companies had finalised agreements with CNOOC.

As for gas, Atlantic Richfield reached an agreement with Chinese authorities in late September, *after two years* of negotiation, to extract and sell natural gas from a large offshore field the US company discovered in the South China Sea, near Hainan Island, off the coast of Guangdong Province.

CNOOC has agreed to build a pipeline to carry the gas to Guangdong, where it has plans to build a power plant. A portion of the power *will* be used in southern China, and the rest sold to Hong Kong to earn hard currency.

The tortured history of a US$4bn, 1,800-Mw nuclear power plant in Guangdong, at Daya Bay, is a reflection of the difficulties plaguing a nuclear programme that was to have 10 plants constructed by the end of the century with a generating capacity of 10,000 Mw.

*Protracted negotiations over* the supply of equipment by Britain's GEC and Framatome of France have pushed the expected completion date way past 1991, and Chinese officials have indicated to the Financial Times that time has been of no great consequence in their quest to win discounts of 25 per cent from GEC and 20 per cent *from Framatome*.

### Coal reserves

The vice-minister of nuclear industry, Chen Zhaobo, says that China is now "thinking" of generating 10,000 Mw by the end of the century, but "it is not a fixed national plan."

Mr Chen says that China has plentiful reserves of coal (estimated total 780bn tons) and usable water (hydro power makes up 20 per cent of energy generated) — "but the geographical distribution is not very balanced. About 60 per cent of coal deposits are on the northern side and 71 per cent of hydro resources are in the south-west," he says.

The bulk of those reserves, he adds, are away from the prime industrial areas on the coast, and the south-east region has been particularly retarded by energy shortages, so nuclear power is "very important in meeting the greater needs for energy."

Paradoxically, China is still importing coal from Australia because the internal transport system is overburdened. The Australian Resources and Energy Minister, Senator Gareth Evans, who was in China in November, received assurances that spot purchases would continue indefinitely.

The prohibitive cost of nuclear technology, which has forced a country such as South Korea to trim its nuclear plans, is no less a problem for China. Diplomats say that the Chinese had based their ambitious plans on unreal expectations of mastering the technicalities of nuclear technology in a short period.

Mr Chen says there would be a "few" nuclear plants approved for the seventh five-year plan, though he could not be specific as the plan has to be approved by China's National People's Congress, early next year: "I think that during the eighth and ninth five-year plan it will be greater."

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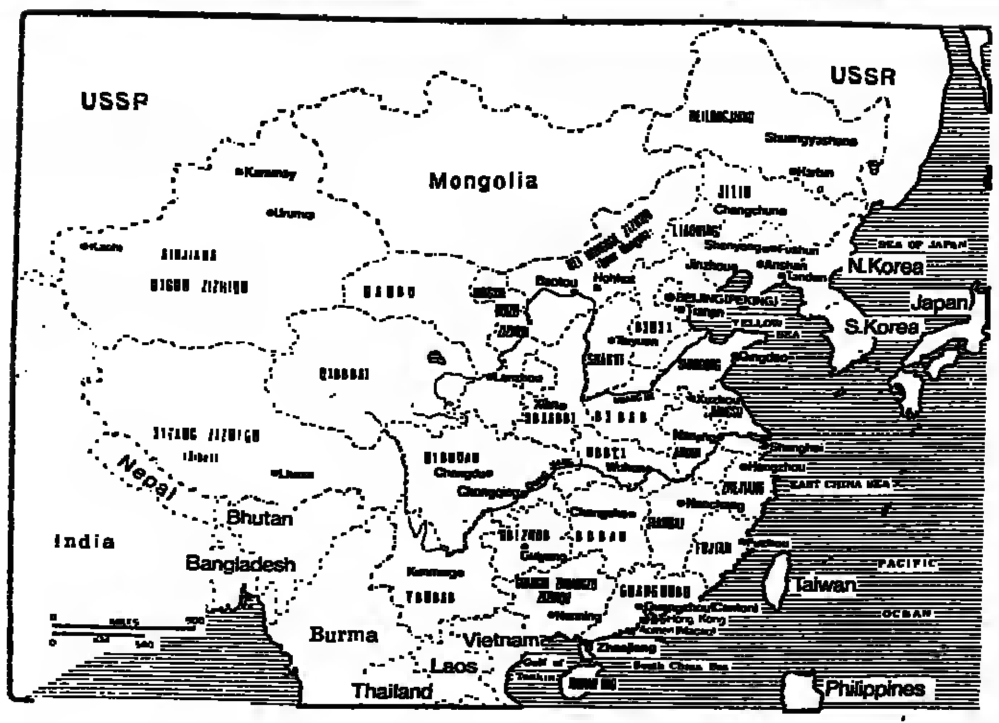



Times have changed both on the mainland and in Taiwan. Three years ago, the trickle of trade through third world countries swelled to a flood as China's more open policies created a demand for more consumer goods. Above, ships ready to unload at the port of Shanghai

# Significant change in position

## China and Taiwan: political complexities

BOB KING

THE BANK OF CHINA in Beijing nowadays gladly exchanges new Taiwan dollars for Chinese renminbi. A Taiwan Government press card gains one entry to the Foreign Ministry in Beijing, and in a pinch will even guarantee the availability of a taxi after dispatchers have insisted there are no taxis.

But despite these conveniences, and despite the often-stated commitment of officials on both sides of the Taiwan Straits to the idea of a united China, the Taiwan-China issue will likely take years, if not decades, to resolve.

The unlikelihood of an early resolution, in turn, worries the leadership in Beijing, who would like to go down in the history books as having repeated the feat of emperor Chin Shih Huang-Di, who in 221 BC became the first man to rule a united China.

The Beijing leadership fears, perhaps understandably, that the longer Taiwan is away from the fold, the less attachment its citizens will feel toward China, from which it has been isolated for more than 35 years.

For this reason, the Chinese in recent years have changed their posture toward the nationalists on Taiwan. Instead of threats and haranguing, the nationalists, who fled their homes in China in 1949, have been stroked and courted, invited to take part in a government of greater China, assured of a warm welcome home.

In further support for this soft line, the leaders in Beijing have co-opted the ghost of Sun Yatsen, whose revolutionary movement in 1911 overthrew the corrupt Qing Dynasty and whom the Taipei leadership has enthroned as the founding father of the Republic of China.

Former Nationalist leader Chiang Kai-Shek has been to some extent posthumously rehabilitated, too, and China has through the media informed Taiwan that the Chiang family's homes and tombs, are being maintained and relatives of nationalist leaders "are being properly looked after."

Behind this lies the sentiment that Taiwan's President Chiang Ching-Kuo, the son of Chiang Kai-Shek, might be persuaded to seek a reconciliation with Beijing in his lifetime. Mr Chiang, who is 75 and ailing, is seen officially in China as a patriot who holds as firmly to the principle of one China as does the present leadership in Beijing. Thus, the reasoning goes, he may be as anxious to settle the matter as the mainland leaders are, before he departs the scene.

This leaves out the current reality of Taiwan—a reality of which the rank-and-file on the mainland is apparently unaware. Taiwan's per-capita income, for instance, is roughly 10 times that of the mainland. Private enterprise on Taiwan remains the rule, compared with state control of nearly everything across the straits.

Although Taiwan's regime is still considered repressive in certain areas, and official corruption is still a major, though unadmitted, problem, Taiwan's citizenry enjoy personal freedoms that their colleagues on the mainland might not even dream about.

Beijing has responded to Taiwanese concerns by saying that the island, under a unified mantle, would still maintain its current system and even its armed forces—much the same blueprint as laid down for Hong Kong after 1997.

But the Taiwanese, with 36 years of nationalist schooling on the nature of communism under their belts, not to mention a fairly-clear understanding of what happened to other regions such as Tibet that were in the past guaranteed autonomy by Beijing, are not interested. Events now unfolding in Hong Kong may only serve to bolster that disinterest.

In fact, bread-and-butter issues tend to dominate the thinking of everyday Taiwanese on the question of possible unification with China.

"If they improve the economy so that the people over there live as well as we do, and give the people the same freedoms we have, then I wouldn't mind unification at all, says one young, non-political Taiwanese recently. He added, though, "improvements and freedom like that can't happen under the communist system."

As frustrating as the current separation may be to some, it also brings some benefits to both sides. The Nationalist Government, for instance, uses the "communist threat" as justification for stifling criticism and opposition on Taiwan, while Beijing can "ring the Taiwan Bell," as one observer in Taipei calls it, anytime it wants something from the US.

Just prior to vice-president George Bush's recent visit to Beijing, for instance, the Beijing Review ran an article which essentially called the US the main obstacle to unification with Taiwan through its implementation of informal, though substantive links after recognising Beijing.

The article essentially called on the US either to bring pressure on Taipei to start negotiations, or at least refrain from what Beijing sees as its support for Taiwan's current stance of "no negotiations, no contacts, no compromise."

During a recent interview with the Financial Times, Vice Foreign Minister Zhou Nan, who negotiated Hong Kong's future with the UK, re-stated Beijing's official policy on Taiwan: re-unification is a purely internal affair which reflects "the aspiration of all Chinese" and which can be settled using the concept of "one country, two systems."

While admitting that "the Taiwan question is different from the Hong Kong question," vice-minister Zhou said, "our approach is, we still want to use the concept of one country, two systems in resolving the Taiwan question, and the terms regarding Taiwan will be more liberal (than those offered Hong Kong)."

Vice-minister Zhou also referred to what he called "interference and obstructure" by the US for instance, "after the signing of the British agreement on Hong Kong, the leaders of the US openly expressed their approval of such an agreement, and of our using the concept of one country, two systems to resolve the Hong Kong question," he said. "Yet, when we raise the possibility of resolving the Taiwan question using one country, two systems, the US remains silent.

### Excuse

"The US has announced that they are not involved in the the Taiwan question, but actually they are involved and continue to involve themselves," he added.

"Actually, their non-involvement is only an excuse. If there is no such involvement, then why did the US adopt the Taiwan Relations Act? Would you call that non-involvement?"

But there are other indications that China, preoccupied as it is with its modernisation programme, is prepared to let the Taiwan question simmer on the back burner for considerable time, despite the official rhetoric.

Only internal de-stabilisation, a declaration of independence, or an intrusion by a foreign power is likely to upset the balance, various observers say. Above all, China wants a peaceful resolution to the issue so as not to disrupt its modernisations. Modernisation, in turn, will take decades, and thus serve to delay resolution that much longer—all things remaining equal.

While Taipei's official line still holds that Beijing could at any moment decide to bring military or economic pressure to bear on this island, many others are assuming that the road to unification, under whatever conditions, is likely to be a long one. Too, pragmatic sentiment holds that the ball is to Peking's court rather than Taipei's—and that the stroke required is the betterment of life for Chinese on the mainland.

The substance of Taipei's responses to overtures by the People's Republic is that talks are impossible until such time as Beijing provides a standard of living and a quality of life for the Chinese people comparable to what Taipei provides, says Milton Yeh, a researcher at Taiwan's Institute of International Relations.

Mr Yeh also suggests that Peking's anxious insistence upon reunification stems less from territorial and ideological reasons than from emotional ones. Current leaders on both sides share "guanxi" or "relationships."

Many of the current leaders in both Taipei and Beijing studied together: their families intermarried: ultimately, they fell on opposing sides in the ideological and civil conflict, with all the wounds that such a conflict engenders still unhealed.

Under such emotionally-charged conditions, Mr Yeh maintains, talks between the two sides could hardly be equitable, no matter what assurances Beijing offers, and nationalist paticipation in a unified government such as Beijing suggests would be minimal.

"If we sit down to talk, then we lose," he says. "So naturally Taiwan doesn't want to sit down. It seems clear they (the People's Republic) want to dominate the game."

# Pragmatism wins through for now

## China and Taiwan: trade links

BOB KING

IN STRONGLY-PRAGMATIC Taiwan, business is a major preoccupation, and, as an island whose 19m people make for a small home market, business in Taiwan means trade, with whoever has the money to buy.

An exception until recently has been the Chinese mainland. Aside from a trickle of Taiwanese manufactured goods such as calculators and radios exchanged on the high seas by Taiwanese fishermen for such prized mainland commodities as medicinal herbs and spirits, and a small amount of goods traded indirectly through port such as Hong Kong, the Taiwanese eschewed dealings with what many considered their natural market.

Politics had over the years formed a more effective barrier to trade between Taiwan and the mainland than tariffs or embargoes ever could. For Taiwan has since 1949, the year Chiang Kai-Shek fled with his nationalist followers in the wake of the communist victory, considered the mainland of China "bandit territory" ruled by "usurpers."

Few Taiwanese, whatever the profit incentive, cared to tempt either fate or Taiwan's security agencies. The latter would more than frown on instances of "trading with the enemy."

Times change and pragmatism has for the moment, at least, won out on both the mainland and Taiwan. Beginning about three years ago, the trickle of trade through third countries swelled to a flood as China's more open policies created a demand for more consumer goods. Taiwan represented a natural source for many of these goods: its citizens were ethnically Chinese and its goods were relatively inexpensive and reliable.

Furthermore, China's leaders sought to make political points by breaking down Taiwan's policy of no contact with the mainland through such trade. One early incentive to Taiwanese exporters was the waiving of import duties on Taiwan-made products. The rationale: Taiwan, as part of China, was thus technically not exporting to the mainland, just as the mainland technically was not importing. Thus, no tariffs need be levied.

Such distinctions, plus the apparent willingness of Taiwan authorities to look the other way as third-party trade went on, caused two-way business to surge to $554m through Hong Kong alone during 1984. Although figures were not available for other third-party ports, some observers estimated that trade with the mainland—mostly made up of Taiwanese exports—may have gone as high as $2bn during the year, or close to 4 per cent of the annual GNP.

But the Taiwan Government has gone beyond its earlier passive stance on the question of indirect trade with an apparent endorsement of such trade. Around the middle of the year, both Taiwan's top economic planner, former Economics Minister Y. T. Chao, and the Government spokesman Chang Ching-Yu, said formally that the Government would not interefere with such trade provided it was conducted through third parties.

Chao said that Government involvement would be limited to alerting exporters to the potential danger of dealing with China, and to encouraging manufacturers to devote only a minor portion of their production capacity to orders from the mainland.

The dangers of over-reliance on the mainland market were brought graphically home a few months ago as China saw its foreign-exchange reserves plummet due to incontinent importing by the authorities in several provinces. Some orders were cancelled at the last minute, causing several shakily-financed Taiwanese companies to collapse.

Perhaps the most widely-publicised troubles occurred at Paijifa, Taiwan's largest manufacturer of Vespa-type motor-scooters. Paijifa was left with more than 4,000 motorbikes worth $2m literally sitting on the docks waiting for shipment when China closed the tap—and proved an almost-perfect case-study of what the Taiwan government had been warning businessmen about.

### Trade figures

Despite China's on-and-off policies towards imports, though, indirect trade with Taiwan will likely double this year. Hong Kong Government statistics indicate that during the first half of this year, trade between Taiwan and the mainland that passed through that port amounted to $598m, compared with $554m for all of 1984. Taiwanese exports came to $530m during the half year—an increase of 276 per cent over the same period last year. Chinese exports dropped, from $70m to $68m.

Those figures do not take into account other indirect trade through Japan, which traditionally has contributed measurably to the two-way total. Nor do they address trans-shipments through Singapore, a port that Taiwanese businessmen say is receiving greatly-increased attention from savvy traders on the island.

Further, all accountings ignore what several sources have said are enhanced direct-trade connections in outright defiance of Taiwan government policy and the security forces.

Testifying to the growing direct links, the Taiwan Garrison Command, which is responsible for Taiwan's internal security, announced in September that it had three months earlier arrested three Taiwanese businessmen who allegedly travelled to mainland China to "sign contracts."

Moreover, a Hong Kong-based China watcher told the Financial Times in November that two-way direct traffic through the port of Quanzhou in the Chinese province of Fujien amounted to $30m worth in the first quarter of this year—three times the level during the same period in 1984. He predicted that the yearly total through that port alone would reach $100m, and that trade through Fujien province as a whole would amount to $300m.

### Destination

Taiwanese exports, which accounted for 70 to 80 per cent of the traffic through Quanzhou during the first quarter, consisted mostly of electronic and textile products, while China provided liquor, medicines, herbs, porcelain, handicrafts, iron ore, and food. All Taiwanese merchandise, the China watcher added, entered free of duties.

It is unclear whether Taiwanese exporters who sold the goods were aware of their destination, or whether the carriers simply changed bills-of-landing on the high seas and shifted course for Fujien after departing Taiwan.

But it is clear that there is a rising sentiment on Taiwan for direct trade, one of several links proposed by China's Ye Jianying in 1981. Leading businessmen have publicly lent their voices to such trade in recent months.

Tzong-Shian Yu, head of the Economics Institute of the Academian Sinica, the nation's highest research body, and of the Chunghua Economics Institute, recently said, "My institute, as well as many of my friends, have made several recommensations to the Government to leave them (people conducting direct trade) alone. But so far the government hasn't said yes."

More worrisome to the Government than direct-trade links with the China mainland, though, are reports that Taiwan nationals have already begun investing in China through joint ventures with provincial and local governments. China has been quietly encouraging such ventures, which it sees as a way of bringing light industry into depressed areas and at the same time drawing Taiwan back into the fold.

A source said recently that as many as ten such ventures are now either operating or under negotiation in Fujien Province. They provide jobs and technical know-how as well as light, affordable products for local consumption, and could form the basis for future export industries with extremely low labour costs — thus putting further pressure on Taiwan's own traditional, but marginal, export industries.

# Year of rising discontent over trade

## China and Japan

JUREK MARTIN

UNTIL this year, relations between China and Japan culturally and historically linked but bitterly estranged for much of the 20th Century, had seemed impressively calm. This in itself constituted no mean achievement for both nations, since "normalisation" had only occurred little more than a decade before.

Japan had emerged dramatically as China's largest foreign trading partner. Mr Yasuhiro Nakasone, the Japanese Prime Minister, had been to China and a succession of Chinese government leaders had come to Japan. There was much discreet talk of diplomatic co-operation on a number of common regional problems, such as the future of the Korean Peninsula.

However, 1985 has produced a different story, on both the political and economic fronts. China now is complaining that Japan is unreasonably exploiting its new opportunities by concentrating only on selling to China rather than investing in it.

### Insensitivity

Furthermore, it has accused elements in the Japanese government of being insensitive to China's feelings by harking back to its militarist era which had brought the two nations into war.

The manifestations of Chinese discontent have, to date, been mostly symbolic, but in a part of the world where symbolism matters, they must be taken seriously. Certainly, the Japanese side does; the government in Tokyo has reinforced pronouncements from Peking by telling Japanese manufacturers that they cannot expect China to be the vast consumer goods bazaar that appeared briefly to be in the process of creation.

The incidents that have disturbed the waters include at least two anti-Japanese demonstrations, in Peking and Chengdu, in September and October. Officials in both capitals agree that they stemmed from Chinese commemoration of the 40th anniversary of the end of the last war (in which China lost 20m people at Japanese hands). Japan fears, but China does not confirm, that the demonstrations were officially inspired.

Chinese sentiments had been additionally rubbed raw by Mr Nakasone's visit, in his official capacity, to the Yasukuni Shrine in Tokyo which houses the souls of Japanese war dead, including those convicted of war crimes against China.

Mr Nakasone's purpose is to get his country to recognise, rather than forget, its past, good and bad, so as to build a healthier nationalism.

The Chinese view is that he was pandering to militaristic circles in Japan to whom the last war was far from bad. In the event, and exceptionally, China lodged formal protests, and had Mr Shintaro Abe, the Foreign Minister, come to China to receive them.

The message was taken on board in Tokyo. In mid-October, Mr Nakasone found it convenient to forgo another planned shrine visit.

To the Foreign Ministry in Tokyo, the whole affair, combined with the Japanese economic "invasion" of China, has created unease, especially in the minds of the Chinese intelligentsia, about the changed relationship between the two countries.

Once deeply in debt to China for language and Confucianism, Japan has now, certainly in the material sense, emerged as China's teacher, an uncomfortable reality for a nation like China with a deeply imbued historical sense of its own superiority.

Mr Zhou Nan, the blunt, outspoken deputy foreign minister, prefers not to see the debate in the same terms. He argues that the Chinese people, like others in Asia, have every reason to fear a revival of militarism in Japan and thus a duty to speak out against it whenever it occurs.

*Indeed, in 1982, China, South* Korea and several south east Asian countries had vigorously protested against an attempt by the Japanese Ministry of Education to rewrite school history textbooks in a way that cast Japanese aggression in the 1930s and 1940s in a more neutral light.

Japan backed off on that occasion and Mr Zhou, equally, found Mr Nakasone's decision to forego another Yasukuni Shrine visit as "sensible."

The commercial disputes are more concrete, though they, too, have their symbolic side. In November, the Chinese Government ordered that several large billboards advertising Japanese products in the centre of Peking be taken down.

The hard numbers show that China, which ran a surplus on bilateral trade with Japan as recently as 1983, ran a deficit of over $4bn in the first nine months of this year. Japanese exports to China, which went up by about 50 per cent in 1984, had doubled in 1985, far outstripping a modest increase in Chinese sales to Japan.

What concerned China was that Japan was selling precisely those consumer goods (cars, televisions, household appliances) which China might reasonably expect one day to re-export itself. In the process, it was eating into China's once large but by no means infinite foreign exchange reserves, which had fallen to about $10bn by this autumn from $17bn a year before.

To conserve foreign exchange and to focus on those sectors which can generate hard currency earnings, China has effectively put a halt to the consumer goods gravy train: car imports have been virtually banned, while intense scrutiny is now being applied to weed out "duplicate" imports.

### Reluctance

Equally inconsiderate of China's needs, in the Chinese view, was the pronounced Japanese reluctance to authorise transfers of the technology that China makes no secret of wanting.

The best-known example of this is Fuji Film's $150m plant in Guangdong province; only by threatening to turn to Eastman Kodak was Fuji induced to provide technology not already redundant in Japan, provincial officials argue. Even then, they believe that, by the time it is working, the machinery will be redundant in Japan itself.

If recent history proves anything, however, it is that the Japanese businessman learns and adapts fast. Japanese capital investment in China, though still heavily concentrated in oil exploration, is on a marked upswing (five such projects three years ago, nearly 60 today).

Even though Chinese officials often express a preference for dealing with American and European companies, Japan's cost and geographical advantages make it a formidable potential supplier, more than willing to step in where other Western interests falter.

In terms of broad political co-operation, however, no such intimacy yet exists. Japan's deep US connection is a problem to China as it evolves more of an omni-directional and less of an exclusively anti-Soviet foreign policy.

There seems to be much less meeting of the minds on common issues such as the two Koreas than might be imagined. Indeed, North Korea's recent conciliatory stance may owe as much to advice from Mr Gorbachev's new regime as it does to Mr Deng's, with or without help from Japan.

A key test of political co-operation may occur next year, as Japan renews its drive for permanent membership of the UN Security Council. The two nations have consulted freely on the role of the international institutions, especially the United Nations, in which process Japan has indisputably helped China.

In this case, however, it will be Japan which is asking China for assistance. Whether or not it is forthcoming will speak volumes for the true nature of the relationship between two such important neighbours.

China is complaining that Japan is exploiting its new commercial opportunities by selling to China, rather than investing in it. Stores in Peking sell imported watches, above, and TV sets, below.

# West Germany sets the pace

## European trade links

RUPERT CORNWELL

IF ANY one date stands out in the crowded recent history of trade between China and West Germany, then it is the second week of October 1984. Chancellor Helmut Kohl was completing a state visit to the People's Republic, and any doubts about its success were banished by two separate announcements.

After years of discussion and patient negotiation, Volkswagen signed a DM 500m deal for the production of its Santana model in China. The joint venture agreement was not only the first of its kind between Peking and a foreign car manufacturer; it also signalled the arrival—albeit not at once—of the era of the private car in China.

Then, just a few days later, word emerged that Schloemann-Siemag, the engineering company which is 50 per cent owned by the GHH group of Oberhausen, had been picked to build a new rolling mill at the Baoshan steel complex near Shanghai.

That contract too had a double significance. It was important for its sheer size: the new mill, in which the electrical concerns Siemens and AEG are also involved, is worth a total of DM 1.3bn. Even more, however, it was a confirmation of China's intention to lift its previous freeze on major capital goods imports from the west, as the first stage in the strategy of Mr Deng Xiaoping, China's guiding leader, to embark upon an "open door" policy to modernise the national economy. In the subsequent months, the impetus generated by the Kohl trip and its attendant economic triumphs has been, to put it mildly, maintained. Scarcely a week has passed without news of further ties between the two countries — ranging from commercial contracts to development and training aid from Bonn, and the reciprocal establishment of more industrial and commercial offices. The *individual cases are legion.*

China now has full-scale trade centres in Cologne and Hamburg. WestDeutsche Landesbank seems set to become, at the start of 1986, the fourth West German bank to have a *representative office* in Peking: Dresdner Bank, already there, broke new ground in January by inaugurating, with Chinese and Japanese partners, a leasing venture in which for the first time the Bank of China is *collaborating with foreign banks* within China itself.

And in the most picturesque example to date of the multiplying links, China has paid DM 16m to buy up — literally lock, stock and barrel — the 65-year-old Zündapp motorcycle concern of Munich. Much of its plant and machinery is being shipped to China to help the development there of an indigenous, modern, motorcycle industry.

### No surprise

All of which makes it small wonder that West Germany today is by far the largest European trading partner of Peking, and outstripped only by the U.S. and Japan.

In spite of the problems of the early 1980s, trade between them doubled between 1979 and 1984 to DM 5.4bn, and leapt by a further 74 per cent over the first eight months of 1985.

But a glance at history is enough to show that this should be no surprise. As Foreign Minister Hans Dietrich Genscher pointed out, opening an extension to the German Embassy's commercial section in Peking in October, some 80 German companies were involved with China back in the 1880s, mainly in Shanghai.

Since then there have been more downs than ups, but today 54 German companies are represented in Peking, while 15,000 Chinese will have visited West Germany in 1985 on economic missions of various kinds. It is an imposing total, and testament to other major transactions in the offing.

Early next year, Peking is expected to make up its mind on *whether to* order *two 1,000mW* pressurised water reactors from Kraftwerk Union, as part of a deal worth up to DM 5bn. Competition from France and the US is fierce. The Germans are probably favourites, but the outcome *could hinge* on the financing of the deal.

Peking is keen that Bonn steps up its imports of metals and other raw materials such as cotton, soyabeans and other foodstuffs. In the past, too, the Chinese have been keen to offset part of the cost, at least, by taking into permanent storage used fuel from German nuclear power stations beneath the Gobi desert.

But aerospace and electricals are *fields at least as alluring* for the Chinese as nuclear energy. A few weeks ago, Siemens (whose first export to China was in 1872) became the first foreign company to sign a long-term outline co-operation agreement with Peking, *on* top of the DM 700m of orders placed with the company in 1985 alone.

Meanwhile Messerschmidt-Bolkow-Blohm (MBB) has offered to develop and produce military and civil helicopters, as *well as a short-haul* commuter aircraft in China. Collaboration could involve both the BO-105 civilian helicopter and its military counterpart, the anti-tank PAH-1.

In addition, Herr Franz Josef Strauss, the Bavarian Premier, who is MBB's most potent export salesman, has also floated the idea of China producing parts for the European Airbus, in which MBB is the main West German partner.

These possible agreements, and others in the pipeline, point the way more over to the likely future shape of co-operation between Bonn and Peking. Instead of licensing agreements, joint ventures will be playing an ever more important part in trade between them, to give the Chinese closer access to Western capital, technology and export markets.

Even so there are still many snags. Peking, to Bonn's great liking, now provides investment protection guarantees, and a double taxation agreement which permits the transfer of profits out of China in hard currencies. But Chinese bureaucracy, in spite of recent streamlining, remains a major hurdle.

One complaint, for example, is that Peking provides too little detail of what it is looking for —a particular handicap for smaller companies formulating tenders to gain a foothold in the Chinese market.

But that fundamental goodwill is there, can hardly be doubted. The Chinese appreciate German thoroughness and above all, German quality. Asked during the Kohl visit why a German company was being chosen for the new steel mill, Deng Xiaoping is said to have replied: "Because only German-built plant survived our last earthquakes intact."

Overseas businessmen often find negotiations complex and lengthy

# Misconceptions abound on all sides

## Negotiations with foreigners

STANLEY LUBMAN

CHINESE AND foreigners are sitting down at negotiating tables with increaaing frequency, hut their discussions ere honnd to be affected by different negotieting styles and complicated by mutual ignorance. The inevitable problems that may result range from minor to gross misunderstandings.

Each side is likely to have different notions of discipline. Chinese negotiating teams are required to maintain group discipline and adhere to previously established positions. Expression of divergent individual opinions are rare, and in cases of doubt or difference within the group, members ere supposed to defer to thalr chief. Foreigners are often more disorderly than their Chinese counterparts, and express individual opinions at the table, even to the extent of offering their views of the incompetence of some of their teammates.

Chinese negotiators are always supposed to distinguish hetween what is in the national interest and what is not, and to maintain their identity as Chinese working for the motherland. Group discipline meshes with national prida to hinder the formation of personal friendships across the table. Yet many foreigners seem to need to find quiekly evidence of considerable, even unusual, personal rapport.

High expectations of forming friendships, followed by disappointment when such expectations fail to he realised, may sometimes ba fostered by the hospitality which is usuelly shown to visiting foreigners by their Chinese hosts. Lavish hanquets may pnnctuate lengthy negotiations so frequently that after several weeks these dinners blur into one another, especially if there are hard drinkers of 120-proof mao-tai on both sides.

Some foreigners complain that their Chinese bosts try to take advantage of the warmth at the dinner tahle when they return to the negotiating table. Curiously, Americans seem to be more piqued by this, perhapa because thay may have higher expectations than Europeans about the results of feasting with their opposite numbers.

The banquets are often less tha interruptions they may seem, hecause it is not considered impolite to discuss husiness over dinner. When the China trade began to expand suddenly in 1978, the chief American nagotiator in a major transaction, visiting China for the first time, expressed doubt about what be might discuss at a hanquet with his counterpart, a stont lady. After she opened their pre-dinner conversation by asking, "when can you deliver?", the two got on famously.

Although friendships may not sprout easily, it is nonethaless trua that Chinese like to gauge not only the foreigners' technical competence hut their sincerity. Indeed, the lattar may be linked to the former, and often blunt engineers from hoth sides, sharing a common discipline, contrihnte more to mutual nnderstanding than commercial negotiators.

### Ignorance

Mutual ignorance, as well as helplessness in the face of it, constantly befog perceptions across the table. At its worst, foreign ignorance can be painful: at the first Guangzhou (Canton) fairs to be attented by Americans in 1972, an American newcomer asked an English veteran of the fair bow to tell from their then virtually identical mode of dress which members of a Chinese group had the bighest rank.

The Englishman solemnly told the newcomer that the most important men wore white socks, provoking many peeka under the table. Although the China trade has expanded heyond the expectations of any foreigners since then the chasm of mutual ignorance extends, unseen hut always present, across the table.

Foreign husinessmen, for example, are continually perplexed by the complexity and verticality of the Chinese bureaucracy, most often evidenced by the relnctance of departments at the same level but under different superiors to communieate laterally to each other.

In recent years this bas changed somawhat, hut considerable decentralisation of authority (even if followed hy frequent partial recentralisation) has continued the difficulty of communication within the Chinese bureaucracy.

Often more important than the Chinese organisations representad in a negotiating room may he those organisations which are not present. Foreigners often attributa to stubborness the slowness with which Chinese may change their positions even in the face of the most convineing argumentation. Actually, the reason may be the need to wait for authorisation to shift a position, which cannot be changed hy the negotiators themselves without consultation with others who they do not choose to identify.

Foreign confusion about these mattera is often made more frustrating by the seeming inability and unwillingness of Chinese negotiatora to discuss their own problems and organisational difficulties. Recently at one negotiation, a Chinese negotiator was heard to ohserve to his foreign counterpart that China waa like the elephant in the fable about the ten blind men who could not agree on the nature of the heast. Tha difference, the foreigner may think, is that unlike the elephant, China could speak—if it wanted to.

Although tha foreigner may input malice to the uncommunicative Chinese with whom he may be locked in a lengthy negotiation, simpler explanations are more likely. Chinese negotiators often act as if it is proper for foreigners to he kept in ignorance ahont China because they must preserve discipline and safeguard state secrets—which can he almost anything as long as it has not been published in tha newspapers.

Secrets may he important for other reasons: some negotiators are openly willing to state that internal regulations and policy guidelines which foreigners are not supposed to see must determina tha outcome of discussions on a particular point.

These secrets will long hang over negotiations. Even as China constructs a legal system where none existed before, to a commitment to bring a new orderliness not only to foreign economic relations hut to domestic Chinese society as well, many officials find it difficult to publish most of the rules by which their activities will be guided. The new laws and regulations remain general and leave many issues to be negotiated, and the hlanks on the Chinesa side are often supplied by regulations which may not be distributed to foreigners.

Perhaps more aggravating than the Chinese assumption that foreigners must take Chinese internal problems as they find them is frequent Chinese insistence that the complexities of westarn companies and western aocieties are problems which the westerners, not the Chinese, must solve.

### Barriers

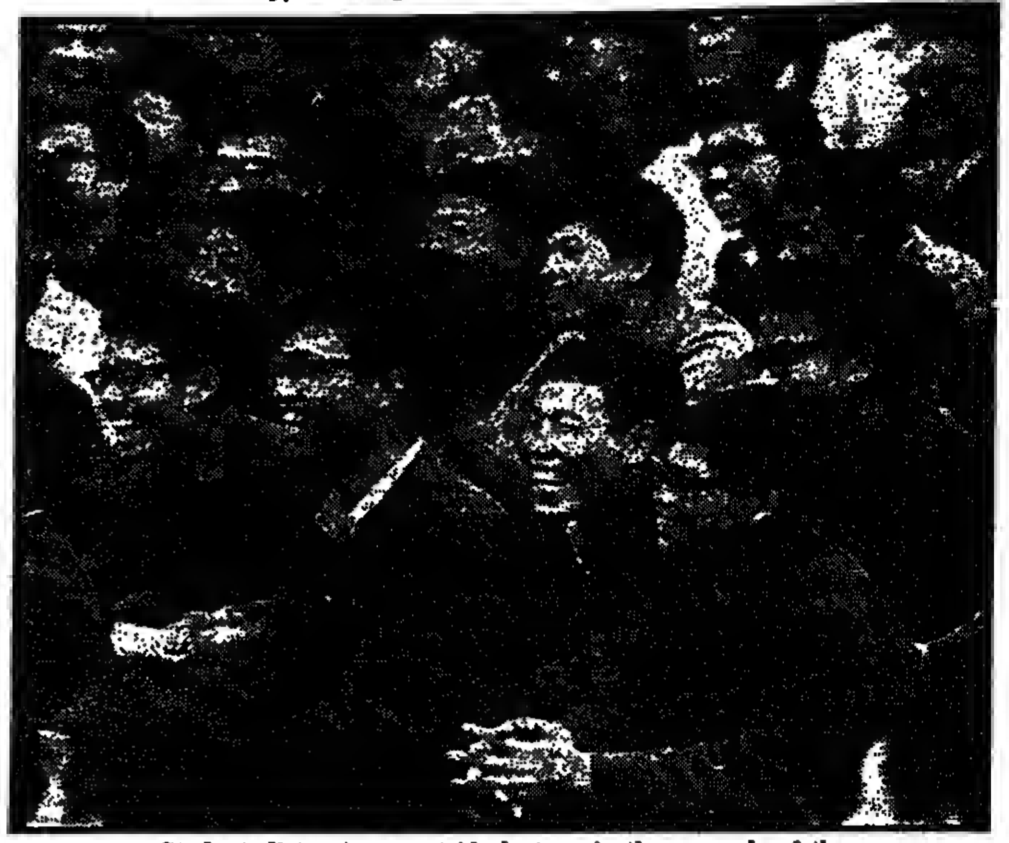
Chinese negotiators have less opportunity to learn about foreign countries and ways of doing business than westerners, and the language harrier is always formidable. For these reasons it may not be surprising, although it is frustrating, when Chinese negotiators throw up their hands when legal or practical problems peculiar to the west are mentioned.

The net result, however, may he that Chinese complexities create problems for foreigners, while difficulties on the foreign side are also problems—for the foreigners. This may he more understandable when the observer reflects that most Chinese officials helow the rank of vice-minister are not likely to feel that they have very much power to nudge their organisations in one direction or the other, but have no way of judging western organisations beyond finding them confusing.

Sometimes the two aides have identical misconceptions about the other, that despite the difficulties that may have arisen there is one person, a leader or someona even less identifiable who is not even present at the negotiations and who can, if properly invoked, exercise the power to settle perplexing problems.

This illusion—or is it a wish? — may he fostered by the Chinese habit of referring to an anonymous "leadership" or "higher level," even though they privetely may not hold it in high regard.

The Bank of China, Peking. Foreign businessmen are often perplexed by the complexity of Chinese bureaucracy



Students listen to an outside lecture in the grounds of the Old Summer Palace in Peking





# Culture shocks at home and abroad

## The student world

ROBERT THOMPSON

*"By this tiny opening in the giant's stomach,*
*I stared long.*
*What om I looking for?*
*The thing I left behind?"*

SO WROTE a Chinese student, carrying more questions than answers in ber luggage on her return to she-knew-not-what in China after several years studying in a Britain she found bleak but stimulating.

China's open door has increased the frequency of two-way traffic, with tourists and business people coming in, while an ever-increasing number of Chinese students are heading in the other direction — abont 30,000 are on such tours of study.

Invariably, those students suffer culture shock wben they settle in their destination, wbether it be the US or West Germany or Australia, and they also bave culture shock on their return to China.

In one case a young Chinese who had studied in the US returned this yeer presuming that be could recreete the comfortable surrounds of his American university life and earn not much less than American wages in a city where the average yearly wage is just over $250. He even took a dislike to Chinese rice, having developed a taste for the American variety.

And a mining engineer, chatting on a Peking-Shanghai train, lamented that the skills ha acquired in his time overseas will never be properly used, as be has been assigned work far removed from his area of specialisation.

Another student said be had been very infloenced by Western concepts of egalitarianism and bumanism, but that it doesn't pay to broadcast such things: "To he first is always risky, if not dangerous."

He read the works of Milton Friedman, who has "got some truths," though he certainly does not agree with everything the author says. He took a deep interest in Western styles of government, and found them "very refreshing": "For a long time you are only told one thing, and then you are exposed to another point of view."

The Peking-based State Science and Technology Commission oversees ebout 3,000 students abroad, mainly in the US, Western Europe, Australia, Japan and Canada. Five of the commission's more successful past products were gathered to discuss the impact of their tour of duty abroad.

The five comprised a linguist, a microbiologist, neurologist, meteorologist, and a physicist, all now occupying senior posts. Two had studied in the US, two in Australia, and one in London.

### Difficulties

Lie Peng, 41, atudied microbiology at the Australian National University in Canberra from 1979 until mid-1983, and is now a researcher at the Peking Institute of Mierobiology.

Since returning, he has found difficulty with a lack of confidence in his research assistants, who are not trained to think creatively and are hesitant in "taking the next step" in experimentation. In China, he said, "the basics are not very good." and this hinders his ability to pass on knowledge gleaned overseas.

Wu Guoxing, 42, studied meteorology for four years in London from 1979, and decided that "the weather is terrible in Britain." He found that British authorities bad a poor impression of the Chinese education system, an impression based on visits to China during the Cultural Revolution (1966-1976).

"I think we got a better understanding of Western society. We tried to understand why Western society developed so rapidly," ha says, answering a question on the ways in which be and his fellow students were affected by tha stay.

"A person asked me 'Could you explain wby several centuries ago, China was the most powerful country in the world and why, now, China sends so many students abroad.' I think it's a question for a philosophy student, not for a PhD student in meteorology."

On returning to China and Peking's Institute of Atmospberic Science, be found that the Cultural Revolution had put China 15 to 20 years behind the times in his field: "So far, we don't have a very good, edvanced computer, and the equipment is still quite backward, so the conditions are not very good.

"We bave a lot of expertise in our institute and I have tried to do my best," he says. But several problems hinder the institute's work, he explains, and be has too much administrative work and would like to concentrate more on research.

### Reception

Yang Chaoguang studied applied linguistics at Sydney University from 1979-81, and is now working in the English Department of the University of International Business and Economics in Peking. Yang was "received warmly" in Australia, "made a lot of new friends," and tried to show Australians that China "is not a backward country."

"I am e middle-aged person and I have not changed much. When you go abroad, you tend to understand your own country," be says. Yang, who says be had few if any problems in Australia and on his return, is "grateful for the chance" to aid China'a modernisation.

While studying neuro-immunology in New York and Washington, Xu Xianbao, 48, saved money to buy equipment that would enable him to carry on his experiments after coming back to China. He was impressed by the ability of American institutions to make snap administrative dacisions, as in China "it takes a long, long time."

"I went there just to learn something about neuro-immunology. Almost every week, American friends would invite me out to dinner. They talked and I just listenad," be says. "They say they bave more fraedom, that you can stand out the front of the White House and aay 'down with Ronald Reagan,' but you will never bring him down just by doing that."

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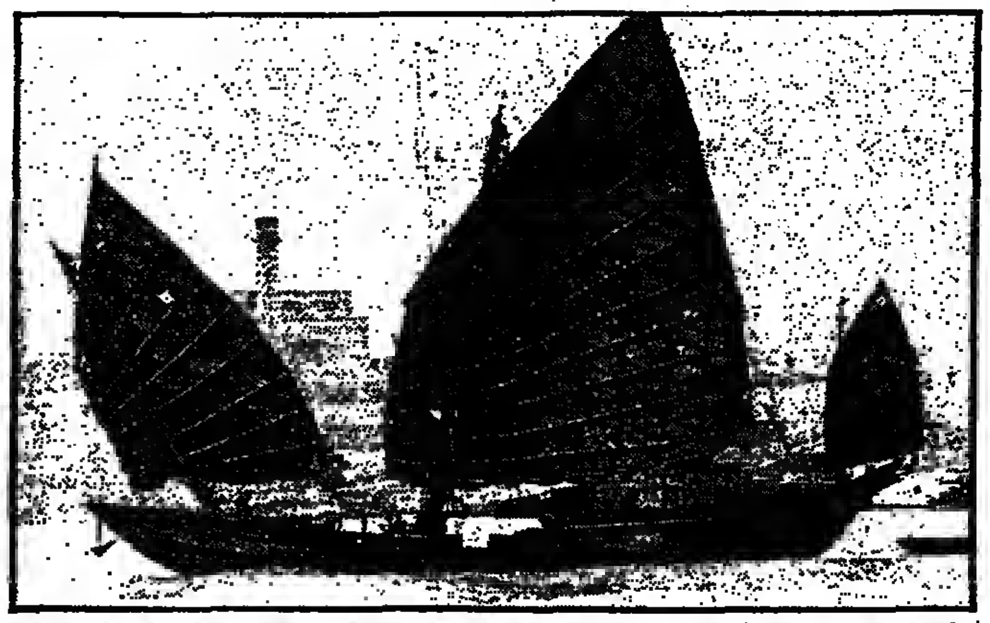
# Shake-up at local levels

## Challenges facing three cities

DAVID DODWELL



Sampans on the Yangtze River carry goods from Chongqing to Shanghai. Chongqing has expanded to become China's largest city, with nearly 14m people.

AS PART of Deng Xiaoping's attempt to oil the wheels of China's lumbering economy, e large number of new brooms have been sent out from Peking to lake leading positious in provincial and municipal governments, and with instructions to sweep clean.

This new hreed of mayor or party secretary is normally in his 50s, expects to retire at the age of 60, and is a technocrat—often university-trained as an engineer.

The odds are he suffered indignity and hardship during the turbulent years of the cultural revolution. He has been given the job of applying the more liberal economic policies being drawn np in Peking, and of cutting a swathe through the local hureaucracies that have proven so inept at introducing—or reluctant to act on—these policies.

Each province or municipality inevitably presents different problems, aod as a result calls for differeot approaches by these new leaders.

## Shanghai

● IN SHANGHAI, the 58-year-old meyor, Jiang Zemin, has since summer headed China's most powerful industrial machine. Its people are sophisticated, self-assured and eloof.

At the same time the city hureaucrecy is faction-ridden. Both industry and infrastructure heve been starved of investment for over three decades. It is a city that is so importaot to the national economy that Peking insists on tight control.

Mayor Jiang is well eware that he is walking a tightrope. As China's former Minister of Electronics, he can feel confident of solid hacking from Peking, but can never forget that many officials around him have equally strong pull in the capital. Unless he has their support or egreement, they can frustrate much of what he wants to do.

As if this were not prohlem enough, ha is in the eyes of Shaoghai people unquestionahly Peking's man. Without a local constituency he is also unlikely to get far. As a result, ha has gooe to great lengths to present himself as a local, and a man with a common touch. Local newspapers have portrayed him shovelling melon peel as part of a city elean-up campaign, supervising flood control operations after torrential typhoon rains in August, end chatting in Shanghainese dialect with street vendors.

While he cannot claim to he from Shanghai, great play is heing made of the fact that he was horn in nearby Jiangsu Provioce, studied power engineering et Shanghai's Jiaotong University, and spent two periods of his working life in the eity.

If Mayor Jiang manages to establish his local bona fides, then he may succeed where his predecessor, Wang Daohan, did not. The former mayor was much criticised during his term of office for failing to introduce economic reforms — unjustifiehly, it now seems.

It has sinee hecome clear that his efforts were frustrated hy powerful and conservative figures aloogside him in the eity administration. It was no accideot that when he stepped down, a number of other senior party officials stepped down with him.

Jiang has therefore errived in office with e new and like-minded Party Secretary. Changes at the second and third tier of the city's bureaucracy are oow occurring, but they are heing kept well out of the limelight.

While change is whet mayor Jiang's job is all about, he is at pains to emphasise cootinuity. To admit otherwise would not only aggravete the resistance he expects to encounter from local bureeucrats and heads of the local state industries, but would overlook the fact that it is thanks to the former mayor that he inherits a greatly increased municipal budget. Wang Daohan's development plan will provide the hlueprint that Mayor Jiang intends to follow.

## Chongqing

● IN CHONGQING, 55-year-old Mayor Xiao Yang faces a quite different set of challenges. This city of 14m people, set at the confluence of tha Yangtze and Jialing rivers deep in China's interior in the east of Sichuan province, has suffered extreme neglect over the past 30 years.

From a brief and tuhulent period es China's nationalist capital during the Sino-Japanese War, Chongqing has suffered almost permanent decline. Politically, it has heen subordinate to Chengdu, the capital of Sichuan, since 1954—which means that many municipal proposals needing state approval have taken up to four years to be cleared.

As a "third tier" authority, Chongqing has found it correspondingly hard to get or keep bureaucrats of a high calihre. But from early 1983, the city has heen given new powers, equivalent in economic matters to those of provinces.

After 30 years of isoletion from the outside world, it can now conduct its own foreign economic relations. The city's leaders are cranking up to deal with the chronic prohlems of urban decay, poor communications, and an erchaic industrial base—over 50 per cent of the city's industrial mechinery was installed more than 20 years ego.

Mayor Xiao Yang has arrived hreathing fire. Trained as an optical engineer at Qinghua University in Peking, and in Dresden and Jena in East Germany, he has paid a high political price for his outspoken and technocratic views, hut has in the recent past heen given a number of jobs linked elosely with Deng Xiaoping's efforts to open up the economy.

He seems undaunted hy the challenges facing him in Chongqing. He began with a eity clean-up campaign, then called for ehanges aimed at boosting foreign trade, and shook np the eity's mediocre and politically-divided bureaucracy. He abolished about 70 departments, merged others, and promised that the process is far from finished.

He claims ha has started on these "easier issues" before getting to grips with the city's more daunting problems. He has appointed Japanese advisers, and has given them executive powers.

Such an ebullient approach would be inconceivabla for Mayor Jiang in Shanghai. It is due in part to Xiao Yang'a own temparament. For a man dubbed a "capitalist roader" during the Cultural Revolution, who suffered one and a half years of imprisonment and regular puhlie humiliation, he has little to fear from the Chongqing bureaucracy.

The ebullience is also possihla hecause of tha contrasting array of circumstances facing the new Mayor of Chongqing. Perhaps most important is Xiao Yang's sense of certainty about the strength of his backing from Peking. Few other local officials have clout in the Chinese capital. Most have been cut off from Peking for so long that they would live in awe of a man of Xiao Yang's standing.

Chongqing has a large arms industry—with 20 per cent of its 1m industrial labour force employed by Peking-controlled defence corporations—but these industry bosses are unlikely to have sufficient leverage in Peking to frustrate Xiao Yang, if only because the central government is in the process of shaking np the arms manufacturers, pressing them into more civilian production.

The new mayor can therefore tackle prohlems with greater confidence than Mayor Jiang in Shanghai that no-one with influence in Peking can pull tha mat from under his feet.

Xiao Yang is similarly well placed in terms of local politics. While he is not a Chongqing man, he comes from a small town on the Sichuan-Shaanxi border just north of the city, and was active in Chongqing in the famous East Sichuan Underground Movement in the final years before the overthrow of the Guomindang government in 1949.

While Xiao Yang has been more outspoken, the odds on him succeeding are if anything less than those on Mayor Jiang in Shanghai. Contrast Shanghai's skilled workforce, comprehensive foreign trade links, easy communications both overseas and into China's interior, and powerful leveraga in Peking, with Chongqing's remoteness, hureaucratic mediocrity and ignorance of overseas markets, and it is clear he has a steep nphill struggle.

"If I succeed, the Communist Party will get the credit. If I fail it will be me that gets the blame," he comments with characteristic hluntness and not e hint of self-pity.

## Shenzhen

● IN SHENZHEN, Chine's leading special economic zone next door to Hong Kong in southern China, 58-year-old Li Hao has recently been appointed the city'a new mayor after a number of years of "concentrating on economic research" in the Ministry of Commerce and the State Planning Commission in Peking.

He arrives at a time of unprecedented criticism of the special economic zones in general, and of Shenzhen in particular. High-level officials in Peking and elsewhere have argued recently that the Special Economic Zones (SEZ) policy has hackfired, with resources being focused on tourism, commerce and construction rather than on manufacturing. They have complained that the manufacturing ectivity that exists is by-and-large using low technology, and is for the domestie market, rather than export.

Mayor Li's joh is almost certainly to ensure that the "experiment" of setting up the SEZs is not allowed to fail, and to project it from assaults from still-powerful conservative economic planners in Peking. One of his earliest acts has been to help local officials mount a spirited defence of the zone's achievements.

He is without a university degree — "I left university before graduation to engage in revolutionary work," he comments.

Like his counterparts in Shanghai and Chongqing he was born nearby his new job. He is reticent about his past, however, insisting that it is not usual for party officials to talk about themselves. Unlike Xiao Yang or Jiang Zemin, the force of his own personality is not such a critical element in whether he succeeds or fails.

He argues that his joh will be to build on the foundations laid by his predecessors, and being applied by a strong and unchanged team of second-tier cadres who, unlike in Shanghai or Chongqing, are young, comparatively highly trained and well-motivated hureaucracy.

Shenzhen is relatively free of the Byzantine bureaucratic polities of other cities, end is unencumhered hy inefficient state industries. In a city that was virtually a greenfield site six years ago, he inherits none of the normal problems of urban decay, infrastructural collapse, or antiqueted industrial machinery.

All three men are firmly committed to Deng Xiaoping'a vision of a stronger and economically lively China. But with their different styles and objectives, they illustrate well both the diversity of the problems facing China's economic planners, and the flexible approach to economic reform that may be one of the greatest strengths of Deng's policies.

SURPRISES FOR OVERSEAS VISITORS AT THE JINLING HOTEL IN NANJING

# Meeting place of East and West

THE BIGGEST ettractioo for those who live in and visit Nanjing has nothing to do with the city's vivid history. It is not the mausoleum to Dr Sun Yat-sen, or the lake on which past Emperors and warlords trained their navies, or what little is left of the Taiping rebellion of the 1850s and 1860s, or the gorgeous succession of classic buildings, now the home of the provincial government, which once served as headquarters for Chiang Kai-shek.

It is a 36-storey white finger out of flatness ealled the Jinling Hotel. On any given day there will be a small crowd of e few dozen locals and country cousins blataotly gawking at something beyond their ken. If they stepped inside, as some now do, mostly on official business, their eyes eod ears would widen more.

They could take in a very passable string quartet on the mezzanine balcony, from a local music unit, an actual built-in piano bar and the *piece de resistance*, on the revolving 36th floor, Jimmy Kiog and his Aloha-Hawaiians. This is an extraordinary haod of now ageing Chinese that was once the rege of old Shanghai in pre-liberation days and which now, regrouped from the culture wilderness, sometimes uncertainly but with undiminished enthusiasm, bangs out approximete renditions of what Glenn Miller and Company served np with precision. The brave and the affluent, can even shake a leg on the hottest dance floor Nanjing can offer.

To be fair, the Jinling Hotel is exeeptional for non-sybaritic reasons. Now open for just over two years, it was one of the first batch of six hotels approved in 1979 by the central government for foreign capital participation and the only one in e non-gateway city. In fact, unlike the other five, Jinling is ectually owned by the provincial government, though assisted by loans for overseas Chinese.

It godfather is S. P. Tao, the Singapore-based magnate (Singapore Land and Ocean Shipping), who was born in Nanjing and whose first local career was as e distinctly modest cobbler.

It was Mr Tao who, responding to the "open-door" policy'a call on overseas Chinese to re-invest in the mainland, determined that his old home town should be the recipient of a grand new hotel (and who, eccording to another old Nanjing expatriate found sampling Jimmy King's music, donated from his own pocket the revolving top floor).

Mr Tao put together the Singapore and Hong Kong financing for the $40m loan raised hy Jiangsu province from the Bank of China (suplemented hy additional loans).

### Consultants

According to Mr Zhang Kinsheng, whose modest title of deputy hotel manager disguises a formidable string of entrepreneurial activities, the establishment is exceptional on many counts. Though Chinese-owned, built and operated, it used extensive foreign consultants on everything from uniforms, through the kitchen to interior decoration.

It despatched key staff outside China for training and now runs its own in-house training programme. Mr Tao's purpose, Mr Zhang says, was to introduce the Western way of managing a product to China and to use it as an instructive showcase.

Mr Zhang believes it is working. The Jingling he says, needs 50 per cent ocupancy to break even and is low profitable "on an annual basis," if not every day.

Its clientele is almost exclusively foreign (about 20 per cent overseas Chinese) relleved only by a small trickle of Chinese dignitaries. But its selling point was that, when it opened, its 700-plus rooms immediately doubled the capacity of high-quality hotel rooms in tha city of Nanjing.

Now, with Jiangsu's growing economic importance and with neighbouring Shanghai's supply of good hotels declining, Mr Zhang predicts that Nanjing will become more of e gateway city—to the Jinling's benefit.

Intent on promoting business end tourist trade, Nanjing has eircumvented proscriptions on scheduled air services by negotiating quasi-regular charters from Hong Kong, Japan and even West Germany. Next year's Jinling reveoues could double, Mr Zhang forecasts; Jimmy King had better keep revolving, too.

JUREK MARTIN

# Imports fail to close the technology gap

## Foreign trade and Investment

JUREK MARTIN

MR XIE MING-GAN, of the State Economic Commission, has no problem in identifying the biggest headache for China's economic planners. It is, he says, "the loopholes in our economic iofrastructure." Unless they are improved, "our economy has no woy out."

In no sector is this more evident than in China's trade and investment policies. It is hard, both for Cbina ond for its foreign partners, to occept that China, for all its illustrious history, is very much o developing country by today's economic yardsticks.

It is not, as some foreign traders first thought, yet a potentially lucrative market of over 1bn consumers; it is not a country with a technological capacity capable of sweeping all before it awaiting only the import of a few cogs and parts; rather its ability to buy, in imports and foreign investments, is constrained by its ability to pay and for that it needs to generate hard currency income through both conventional products in which it is already strong (agricultural goods, raw materials and textiles) and througb those manufactured products in which, because of the lack of expertise, it cannot yet compete internationally.

Yet, as officials throughout the country freely concede, the record of the foreign connection as the economy has gathered pace in the last two years is that China has been importing too many of the wrong things (consumer goods for internal consumption) and too little of foreign production technology for comfort. Tho fault lies partly with China itself—the infrastructural problems to whicb Mr Xie referred—and partly with its foreign suppliers, who have. China believes, concentrated more on tbe quick returns than the long term investment.

Japan bas, as examined elsewhere in this survey, sought most actively to capitalise on China's "open-door" policies, to the extent of a surplus of over $4bn in bilateral trado in the first three quarters of this year. But Jopan is far from being the only "offender."

China's general imports in the first nine months of this year, according to the Ministry of Foreign Economic Relations and Trade (Mofert) were two-thirds up on the same period in 1984—a period in which foreign exchange reserves dropped by about 40 per cent. New, if still fledgling suppliers to China, from other parts of Asia (including South Korea) also see China as principally a marker for their manufactured goods, though tbe figures still show a predominance of raw materials and semi-finished imports from the region.

### Classic problem

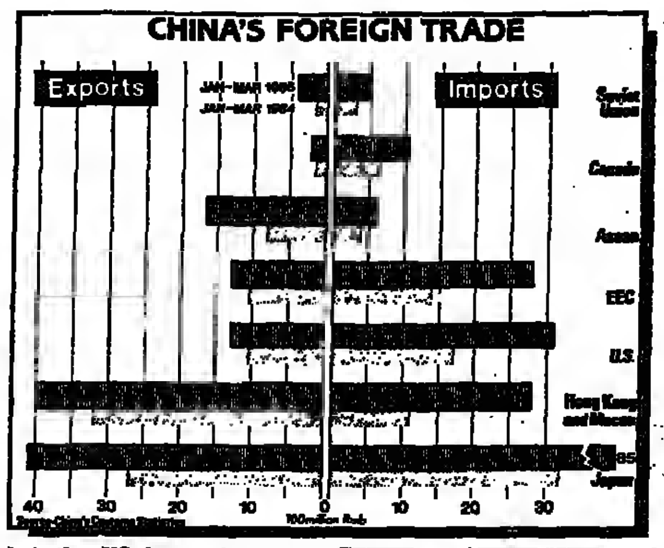
On the export side, China is confronted with classic protectionist problems in its potentially biggest markets. It already accounts for over five per cent of the global trade in quality textiles (and a bigher sbare of lower grade products), yet finds both the US (exemplified by the Jenkins Bill) and Japan reluctant to buy whot they might. The lower international price of oil and other primary commodities are also reducing China's external earning propensity.

Nominally, foreign investment in China is on a sharply upwards curve—from 188 projects officially logged in 1983 to 931 in 1984. But many, especially those by overseas Chinese (780 of the 1984 total) are extremely small and concentrated, Chinese officials believe, in the wrong sectors.

Some of the larger investments have, naturally, been in hotels and tourism in which the Chinese infrastructure is indeed deficient. But Mr Xie is for from alone in arguing that China now has enougb "five-star hotels," wbich, in any case, do not bring in substantial sums of foreign exchange.

It is the technological content of foreign investment which is of perhaps even greater concern. A country which once made wondrous things cannot now compete not merely witb Japan but with other Asian countries. The manager of the Nanjing Radio factory freely concedes that his Panasonic (of Japan) assembly line is light years ahead of the Pando (Chinese) one on the floor below.

China bas two specific complaints about the lack of technology transfer—that Japan simply will not provide it and that the US is too intent on invoking the rules of Cocom (the Co-ordinating Committee on East-West Trade) to limit technology exports to any Communist country.




Curiously, Cbina's old enemy, the Soviet Union and its allies, may be well placed to meet its needs. Mofert concedes that in general terms (and notably in power production) the modest level of Soviet technology suits China. It also probably helps that Cbina does not bave to pay for Eastern European supplies in bard currency.

The World Bank report on China argues that a major expansion of gross national products cannot be attained without a substantial increase in the service sector, again an areo in whicb China is deficient and where foreign expertise could—and to o limited degree bas olready—contributed. Chinese officials do not disagree with the diagnosis, but see implementation of many aspects of a service sector years off; finance and banking is one such.

Yet, with an increasingly omni-directional foreign policy, the Chinese problem is less that of picking logical and desirable trading partners than of determining whot to buy and invest in and wbat to sell.

This, in turn, comes back to Mr Xie's observations on tho country's infrastructural deficiencies; the national experiment in administrative devolution (giving provinces and other local authorities much greater autonomy in trade and investment) bas proved a mixed blessing, at least in the eyes of the central government. However well some areas bave done, there have been clear cases of duplicato imports (too many televisions and refrigerators), of foreign investment projects with minimal export potential, and of general administrative inexpertise—hardly surprising in a nation which for two generations has known only central control.

Even the Central Government is learning new rules on the job, as it were. Regulations governing tbe 22 "open" zones, cities and regions wbere foreign trade and investment is actively sought bave been frequently changed. Deng Xiao-ping himself has questioned whetber or not the showpiece zone, Shenzben in Guangdong province, is working well enough.

And, perhaps above oll, the Government is now very cautious about the foreign excbange factor; this is not surprising; $10bn-plus in reserves is what Cbina this year looked like accumulating as a foreign trade deficit—though the final figures will almost certainly sbow something approximating "balance." Foreign excbange bas become, if not a scarce, then at least a premium commodity in China, as any foreign businessman will attest. It is likely to remain so.

### Foreign investment

| | No. of projects |
|---|---|
| Contracts concluded (value $14.7bn) (in operation $5.36bn) | 7,030 |
| Joint equity ventures approved | 1,897 |
| Co-operative ventures approved | 3,408 |
| Sole foreign investment ventures approved | 109 |
| Joint offshore oil projects | 31 |
| Compensation trade ventures | 1,585 |

A woman operative at the Guanzhou (Canton) heavy machinery plant. Industrial planners in China seek far more technology transfer from overseas companies.

SINO-SWED JOINT VENTURE

# High hopes for new drug plant

ON AN ISLAND in a lake a few miles from Wuxi, in Jiangru province, among typical canal-and-paddy-field scenery of the Yangtse delta, a surprisingly Scandinavian silhouette recently appeared. An elegant silver factory building will house the new Sino-Swed Pharmaceutical Company, a joint venture between a group of Swedish pharmaceuticals producers and three Chinese investors.

Getting the project under way has been relatively speedy. First contacts between the two sides were made in 1979; a feasibility study for the project was carried out in 1980-81; and a contract to build the plant was signed in 1982. Ground and the plant should be finished in August next year.

On the Swedish side, the pharmaceutical companies joined with a government organisation, Swedfund, and contributed $6m of the $12m capital. The Chinese investors, the state, the provincial and the local Masham township pharmaceutical administration, paid in $5m worth of investment in land and building, plus $1m in cash.

Mr Goran Skanberg from Sweden, currently on site and overseeing the construction, is president of the company, and Li Xin from the Chinese side vice-president. Three positions are earmarked for the Swedish side, chairman and two chief engineers.

Most of the equipment will be Swedish, but the Chinese are contributing some basic installations. The main products will be o cardiovascular drug, Astra, and a substance used in drips, Kabivitrum.

"The Chinese authorities would like to see SSPC being really successful," says Mr Skanberg. "We ourselves are looking to the long term, and wo feel with our proximity here to Wuxi's 800,000 people, we are in a good place.

"Wo strengthen our staff here from time to time with personnel from the Swedish consortium. For instance, we've got a marketing adviser here who is working with Mr Li. Wo may need other advisers as the project develops in 1986.

A project group is working on the construction, and the project manager is Swedish. Three Swedish experts are helping with the piping, building and installation, but their jobs are only short-term.

There are seven Chinese staff in the construction office, who control the work done by the main contractor (the Wuxi Construction Company), plus people working temporarily in the construction office, a total of 30 to 40, Mr Skanberg says.

Thore have been delays. The original start-up date was April next year, and costs have risen slightly because of initial under-estimation, world inflation and the falling Chinese yuan.

"The production equipment is all imported — from the US, West Germany, Switzerland, Italy. We are considering some Chinese purchases, and we are certainly using Chinese equipment for the utilities — the boiler house, quaysido and water treatment.

### Turnover

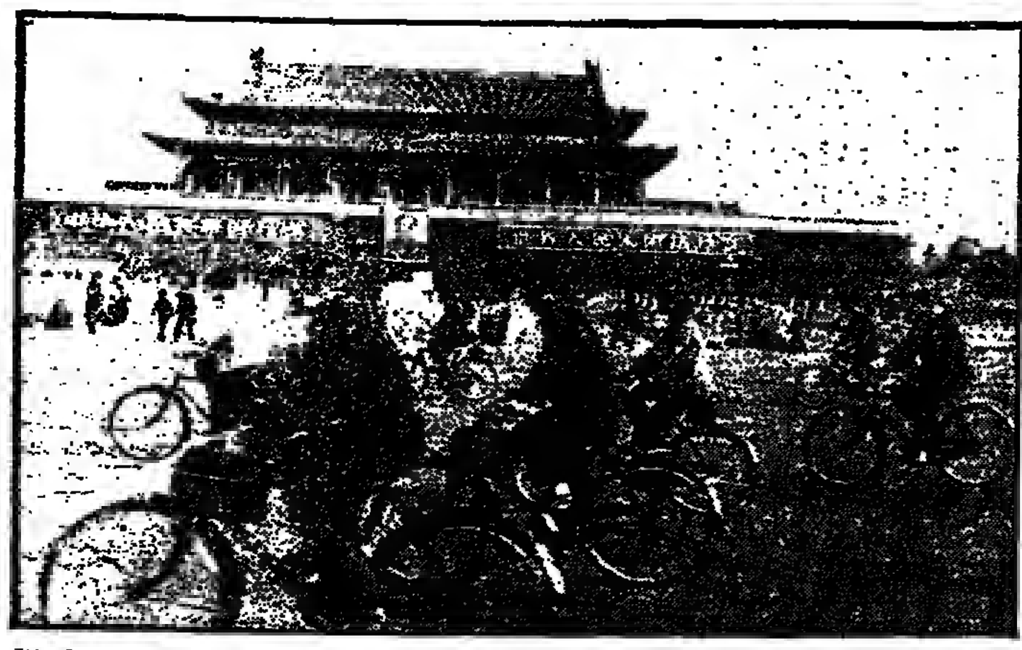
"There have been no prob- is owned by tho locality." Mr Skanberg says, and coal for fuel is shipped in at tho quay being built as part of the project. Anti-pollution equipment is to be installed.

"At present, we calculate about 30 per cent of our turnover will como from exports in our first three operating years. That should be possiblo as we also plan to make generic drugs. We are discussing the sale of these with foreign buyers at the moment."

The aim is to obtain approval of the plant by tho US Federal Drug Administration. "We will also have some products to export to the Swedish consortium members for distribution."

Several two-storey houses are being built adjoining the site for the foreign staff, for which the rent will be yuan 50,000 a month. Even the 30 or so Chinese staff have been brought in from other parts of China. "It is important to get the right quality," says Vice-President Li.

COLINA MacDOUGALL



Workers in Peking (left) cycle through Tiananmen Square, not far from the Great Hall of the People where members of the Chinese Communist Party (right) raise their hands as they cast their votes for new members of China's Communist Party Central Committee

# Critics answered with lively defence

## Shenzhen: Special Economic Zone

DAVID DODWELL

LEADERS in Shenzhen, the fast-growing Special Economic Zone (SEZ) on China's mainland border with Hong Kong, are not people to take criticism lying down.

Instead of cowering when China's official media, with the blessing of a number of senior state officials, recently claimed that development in the country's four Special Economic Zones had gone awry — prompting paramount leader Deng Xiaoping to say they were no more than "an experiment" — they launched a spirited defence of what they had achieved.

Instead of battening down the hatches and waiting for criticism to die down, they set about an unprecedented propaganda campaign. Between mid-October and the end of the year, they have invited about 200 officials from ministries in Peking and provincial governments to visit the zone to see for themselves.

These include Zhang Gensheng, deputy director of the Economic Research Centre in Peking, and Wang Zuo, the outspoken director of Guandong's Provincial Structural Reform Office.

Late in December, Gu Mu, the state councillor with a wide range of economic responsibilities, will visit the zone "to summarise what has been achieved so far, and to give advice on laying out strategy for the future."

"Through study and investigation we can reach a unanimous understanding about the situation here," said Lu Zufa, deputy secretary general of the zone, with not the slighest hint of doubt that they could not be persuaded to see things his way.

Critics have argued that the country's four Special Economic Zones in Zhuhai, Shenzhen, Shantou and Xiamen—of which Shenzhen is by far the biggest and in many respects the national model — have flourished on tourism, retailing and construction rather than on build-up high-technology manufacturing industry as the central government intended.

They have complained that most of the manufacturing activity has been for the domestic market rather than for export where it would earn urgently needed foreign exchange.

### Scandal

In the wake of the Hainan Island scandal, in which cars worth perhaps US$200m were illicitly imported with the connivance nationwide of cadres and army officers at senior levels, the finger has been pointed at the zones as "havens of corruption" and other commercial crime. Black marketeering in currency has been investigated particularly carefully.

Deng Xiaoping's comment that the zones were no more than an experiment, from which lessons could be learnt if they failed, sent shivers through the foreign investing community, which saw a hint that China's open door policies were under threat.

Widely publicised speeches by powerful economic figures such as Chen Yun, which attacked China's timid flirtation with a market economy and called for more central planning, added to fears that Deng's liberalising policies were under assault from conservative groups in Peking.

In Shenzhen itself, there are few official signs of self-doubt. In six years, it has grown from a tiny fishing hamlet to a sky-scrapered city of 300,000 where the ubiquitous Chinese cyclist is heavily outnumbered by imported cars and trucks. It may look dusty and shoddy to a visitor arriving from nearby Hong Kong, but enter it from the other direction, by road from Canton, and it is the very epitome of gimcrack modernity.

"It's true we don't have much sophisticated or advanced industry," admits Lu Zufa, "but we think the achievements made so far are considerable, and have not been easy.

"I accept that trade, tourism and commerce have been the areas of fastest growth — but these pave the way for industry. It's also true that during our early development, most industries have been technologically simple, small scale and backward — but they are providing the foundation for development of more sophisticated industries."

Officials are literally bristling with statistics to support their claims. The gross value of the city's industrial output has soared from RMB Yuan 60m in 1979 to Yuan 1.8bn last year, and an expected Yuan 2.4bn this year.

In 1984, almost 38 per cent of the city's production was accounted for by construction, and a further 16.4 per cent by commerce and tourism, but manufacturing accounted for a substantial 33.6 per cent — more than most would have guessed in the light of recent criticisms.

Exports account for about 34 per cent of industrial output—well short of the 60 per cent long-term target, but in Lu Zufa's eyes, no mean feat in such a short space of time. In any case, China's powerful consumer boom, coupled with the fact that goods sold on the domestic market are generally priced higher than those for export, have given scant incentive to manufacturers nationwide to give high priority to exporting.

About 80 per cent of the $800m non-oil foreign investment has come from Hong Kong, linked with consumer electronics and textiles. Neither of these industries has been buoyant in the past year, so efforts to boost export earnings have been frustrated.

Shenzhen officials also insist that it is premature to expect high-technology investments. Despite the heavy investment in infrastructure, industry remains starved of electricity — and can expect no improvement until state and provincial governments decide to commission more power plants.

Most important, there is no local pool of highly-skilled workers to draw upon — as there would be in Shanghai or Tianjin. A high-technology corporation recruiting staff in Shenzhen starts with peasant farmers. Even the armies of construction workers have had to be imported from China's interior.

Other moves are not those of a government with its tail between its legs. The recent freeze on use of foreign exchange has hurt Shenzhen as it has hurt elsewhere in China, but other changes are taking place that have attracted considerable comment and interest.

Four foreign banks have been allowed to open full branches in the zone—the first to open since 1949.

Proposals have been put to Peking for a separate Shenzhen currency that would be internationally convertible. An investigation is in progress on setting up an independent commission to investigate corruption among officials.

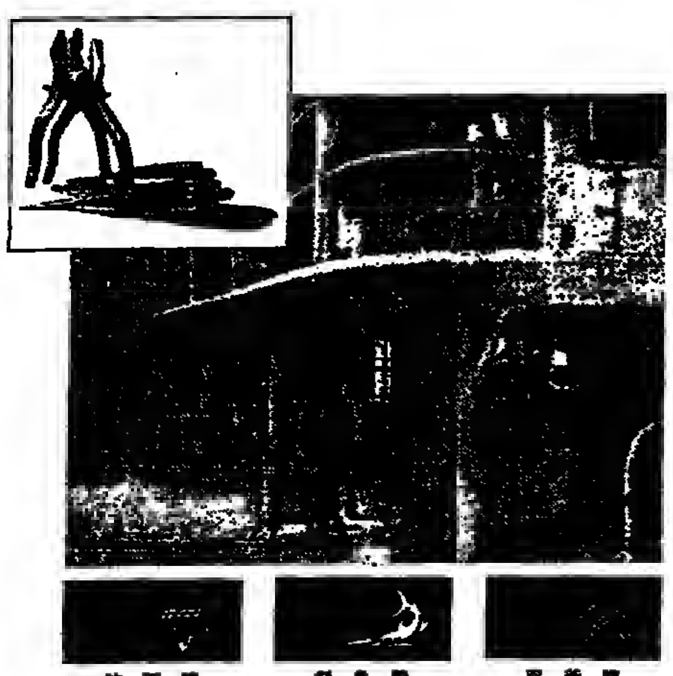
Some foreign businessmen have been frustrated in recent weeks over a reluctance to take initiatives on ventures under negotiation. But in view of the squeeze on foreign exchange, and the "exchange of views" occurring between now and Gu Mu's visit in a month's time, the reluctance ought to come as no surprise.

"The economic development occurring here is natural," says Li Hao, the city's newly-appointed mayor, "no-one is trying to manipulate it. The main task of leaders is to follow changes in a practical and natural way."

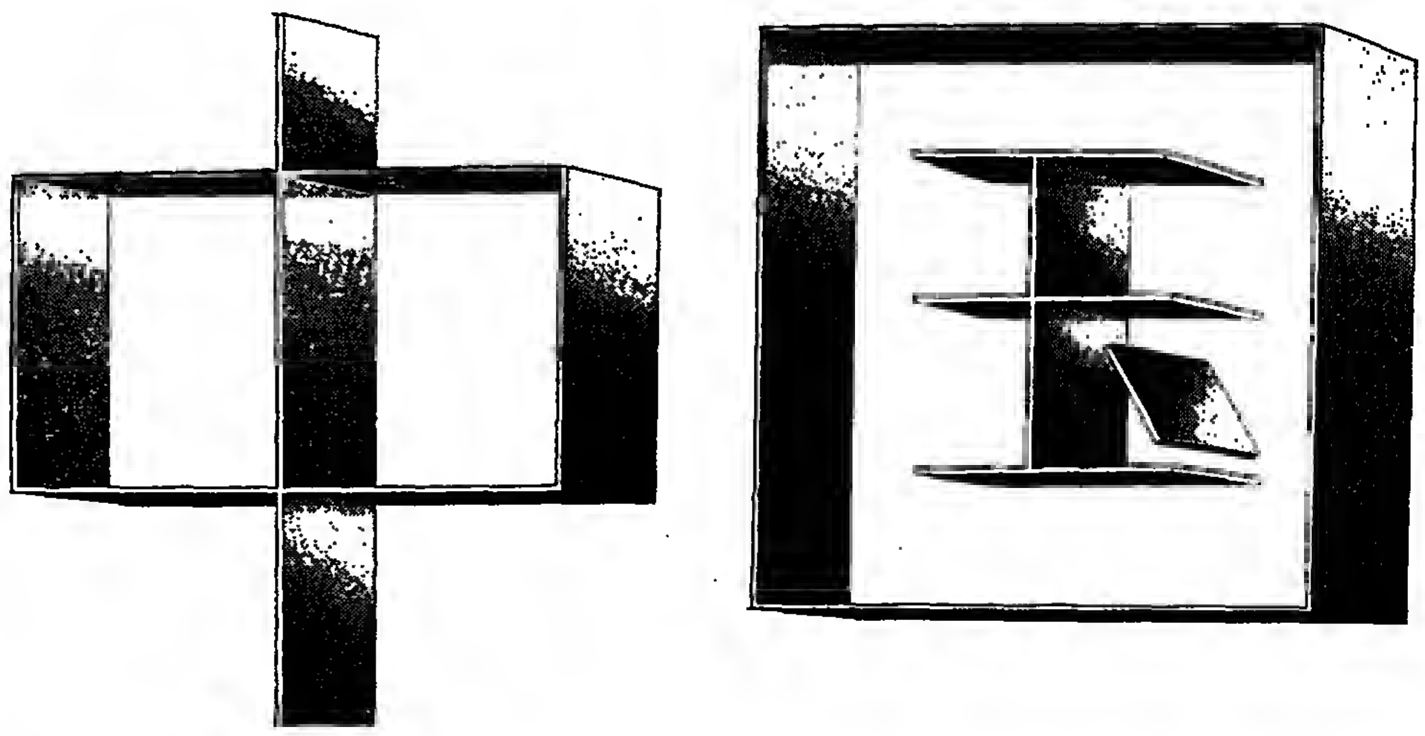
Deng Xiaoping may have been forced to acknowledge that his special economic zones are an experiment, but if his "laboratory technicians" heading the zone are an accurate guide of his present mood, then he is far from admitting the possibility of failure.

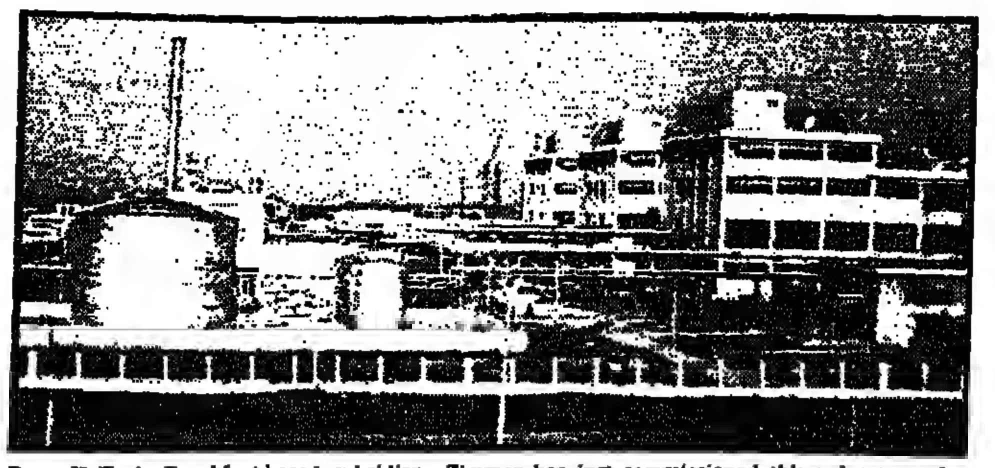
Rail tankers carrying fuel supplies from Shengli. Energy shortages are nevertheless proving a hindrance in industrial sectors









Davy McKee's Frankfurt-based subsidiary Zimmer has just commissioned this polyester polycondensation plant in Nanking, Jiangsu Province, producing the raw material for fibre production. Zimmer is also building 12 spinning mills in China

# Prosperity follows surge of enterprise

## Jiangsu Province

COLINA MacDOUGALL

"IN HEAVEN there is paradise, on earth we have Hangzhou and Suchou," runs the old Chinese saying.

While it must be conceded that Hangzhou is in the adjoining province of Zhejiang, the ancient canal city of Suchou indeed lies in the fertile delta country of Jiangsu. This "land of rice and fish," as the Chinese call it, with its neat well-built villages, is the most densely populated and productive in China.

With nearly 62m people, 600 to every sq km, the story could have been very different. But the enterprise and flexibility of the people have brought it, at an expected Yuan 500 in the countryside and Yuan 800-1,000 in the towns, the highest income per head this year of anywhere in China. Most of the rural rise comes from the post-1980 explosion of specialised farming activities and small business enterprises.

"The Yangtse valley has been the centre of Chinese civilisation since the Tang dynasty," said Vice-Governor Chen Huanyou. Peking might dispute his view, but there is no doubt that the great cities of central China have been a powerhouse in its economic development. It would be inaccurate to call them rich, but they have a sense of bustle and commerce quite different from the bureaucratic austerity of Peking.

Nanking, today the provincial capital of Jiangsu, has played a leading role in history. It was the capital of the southern Song dynasty of the Taiping rebels just over a hundred years ago, and of Chiang Kaishek's Nationalist regime in the 1930s. It stands near the confluence of the great east-west artery of the Yangtse River and the ancient north-south Grand Canal.

While its airport does not have international status, its other communication and the business centre in the new 36-storey Jinling Hotel make it an attractive rendezvous for foreign traders seeking Chinese partners.

Jiangsu forms part of the vital hinterland of the metropolis of Shanghai. Foreign influences reached it early. During the Opium War, in 1841, a British fleet sailed northwards from Hong Kong and up the Yangtse, sacking Chinese ports as it went. The consequence was the Treaty of Nanking, under which among other terms were the cession of Hong Kong to the British and the opening of Shanghai to foreign trade.

Shanghai grew fast and Jiangsu benefited, marketing its growing produce in the city and getting back foreign investment and technology. "So much of our textile machinery is British," said Mrs Ma, head of Wuxi towns Foreign Trade Bureau. "Can you ask British textile companies to help us update it?"

It is this legacy of openness to the outside world which has today pushed Jiangsu to the forefront of Chinese provinces. It has few raw materials. With its huge population, it is dependent on their resourcefulness to better their lives.

"Four-fifths of our industry is in processing," said Vice-Governor Chen Huanyou, speaking in the vermilion hall that was once part of the Taiping emperor's palace. "Our agriculture — rice, wheat, cotton, fresh water products — is the richest in the country.

"Our industry is over 95 per cent in small and medium sized factories, and nearly half of it is owned not by the state but by collectives. We need new technology to develop those, especially technology that will reduce power consumption."

Like much of eastern China, Jiangsu is energy-starved. The province is actively discussing the supply of an 1800 MW nuclear power plant with the West German Kraftwerk Union and unspecified French companies. But Peking's vice minister for the Nuclear Industry Chen Zhaobo declared it was uncertain whether it would be included in the next five year plan, due to start in 1986.

However, the province is expecting four conventional power stations to be built with funds from Peking, one at least to come from Japan. Other major projects slated for the plan period are a 500,000 V transmission network, upgrading Lianyungang port, improvement on the Grand Canal and key chemical, rail and cement installations.

Jiangsu currently has 51 joint and co-operative ventures with foreign companies, rocketing from only four in 1983. Worth a total of $156m, some 30 per cent of these are with Hong Kong. The biggest is a beer and soft drinks plant from Japan's Suntory, at $32m.

Another 50 or so are under discussion in fields like textiles, electronics, chemicals, coal mining and tourism. The province is looking for more partners in these and similar fields.

Miss Wu Huiping of the province's trade and investment bureau, reluctantly confessed to one case of jobless workers at a part-Japanese plant, but did not admit to other problems such as power or water shortages.

This year the province's trade has hit shoals—"The outlook's not good for exports," says Sun Shunqing, deputy director of provincial foreign economic relations and trade. "Forty per cent of our exports are textiles. Last year our sales reached $1.4bn. This year we estimate just a small rise to $1.5bn.

"Imports may be restricted as under the new policy we must avoid consumer goods and duplication of equipment already been set up elsewhere," he adds. But while there may be a slowdown for some months, no-one in Jiangsu expects China's present economic and foreign exchange problems to alter the long term pattern of beneficial development.

# One of China's most impoverished areas

## Profile: Guizhou Province

COLINA MacDOUGALL

NEXT TIME you go to a Chinese banquet and down a glass of the fiery spirit Maotai, used for toasts throughout the Chinese world, spare a thought for the people that produce it.

In the village of Maotai, a remote corner of Guizhou province, itself tucked away in China's southwest, peasant distilleries continues their work bringing a trickle of money into what is one of China's most impoverished areas.

No greater contrast to the lush paddy lands of the east could be imagined than the limestone mountains of Guizhou. A few valley floors afford a modest space for cultivation, but by and large the inhabitants literally scratch a living from tiny patches a few feet square on precipitous and boulder-strewn hillsides.

Little has been done over the past three decades to improve their lot. Large and inefficient industries have been set up in the provincial capital, Guiyang, but as the population has doubled to 29m since the early 1950s, any increase in ouput has been swallowed up by rising numbers.

Guizhou has always been shockingly poor. Originally inhabited by primitive tribes like the Miao and the Buyi, Han Chinese came to settle as pressure on land increased in adjoining more fertile provinces.

This trend continued in the 1950s and 1960s as Chinese communist policy focussed on bringing the far-flung western areas more into Peking's orbit, and whole factories were removed from Shanghai to Guiyang. They remain important projects, but it is a moot point how far they have raised local technical standards or directly benefited the local economy.

Guizhou had a bad Cultural Revolution whose effects linger still. A giant statue of Chairman Mao points imperiously across what was a huge rally ground, thought it has now been incorporated into a new town plan criss-crossed with highways and gardens.

Deng Xiaoping's reform policies have brought improvements in that food appears more plentiful, though provincial leaders admitted that some 20 per cent of the population still go short. Grain is brought in from other provinces to feed the cities, and the development of sideline activities means more eggs, meat and vegetables.

Guizhou's real riches lie buried in the mountains. It has key reserves of mercury, phosphorous, bauxite, coal, antimony, titanium and manganese. The problem lies in getting them out; for though railways have been built since 1949, these resources remain inaccessible.

Provincial planners are hoping to improve links to the rest of China with an airline to be run jointly with Sichuan province next door. They have already bought four Boeing 737s.

To solve the minerals transport problem, they have signed letters of intent to buy an airship from Airship Industries of London, though it remains to be seen whether the climate (which generates continued cloud), and technical levels in the province, are suitable.

The province's one asset is its hydropower potential. A planned development of huge dams and power stations along the Hongsbui River partly crosses Guizhou. Already, provincial officials claim the province has a 1bn Kwh surplus of power which it sells to Sichuan and Guangxi, though this year lack of rainfall has reduced water levels to the point where even Guizhou has had to economise.

Today, Peking is well aware of the difficulties in its poorer regions. These may contain fewer people than the richer ones in the east, but the numbers still run into many millions.

A thrusting new party secretary, Hu Jintao, at 42, China's youngest and believed to be one of top leader Hu Yaobang's proteges, was appointed in September and has since spent his time energetically touring the province. He will have his work cut out to dent the problems.

# Success comes to 'Little Shanghai'

## Township profile

JUREK MARTIN

IN THE city of Wuxi, appearances deceive. It is a metropolis of 870,000 (nearly 4m including the three surrounding counties) nearer to Shanghai, in spirit as well as distance, than to Nanjing.

It appears to have only two sets of traffic lights, both operating on 10 watt bulbs, and just 200 cars, virtually all officially owned, as against 420,000 bicycles. Yet it boasts a radar speed gun good enough to catch our driver *in flagrante delicto* on a back road.

Wuxi's model sub-division, a rural district still informally known as the Red Flag Commune, is an example of how a community steeped in traditional agriculture can diversify into cottage industries and basic production.

Its achievements are impressive, yet it startles to have them outlined in a video with impeccable English commentary—and the background theme music of The Isle of Capri.

Dichotomies apart, Wuxi is doing many things right, especially by the standards of Deng's modern China.

It has for 3,000 years enjoyed prominence, as one of the nation's great rice markets, as a home of great expertise in silk-making, and because of the scenic beauty of the Grand Canal and Lake Tai.

Today it is the most productive region of the most productive province (Jiangsu) in China. That does not make Wuxi the most productive city but puts it in the big league.

"Little Shanghai," as the deputy mayor, Mr Li Zufa, remembers the city's old name is intent on emulating its former mentor.

Wuxi officials like Li, explain its success as a knack for implementing national directives. They point to the change in national policy in 1978, particularly in the impetus to diversify economic bases and to promote exports.

Although Wuxi's biggest industry remains cotton textiles, it is nowadays followed closely by mechanical machinery, with electronics now the fastest growing individual sector. Before 1949, Wuxi only exported silk and cotton; now more than 400 commodities are sold overseas.

The export ratio is said to be 27 times that of 1949. Farm output is however, 56 times the level of 36 years ago.

Official encouragement of private business also appears to have taken hold in Wuxi. One non-state enterprise is described as the largest mushroom farm in China, with 80,000 sq ft under cultivation on land rented from the local government, and 580 employees. Another is the Auspicious corporation, a trader which groups several small private businesses.

Most private enterprises have to sell in the street off trucks and barrows—the produce market, already a tourist attraction, is typical of this. But permanent premises will have to be found soon for the more successful concerns. The state-run East Is Red department store may even find private competition in the town centre.

Wuxi's real trump card, however, may be tourism. Some 90,000 foreign visitors passed through last year, many on Grand Canal boat trips.

The city says it is the largest attraction for Chinese on holiday, with as many as 11m indigenous tourists last year. Seven hotels are under construction.

Economic growth has brought problems, however. The city now wants a more modest, sustainable increase of 8 to 10 per cent rather than the 18 per cent annual average for the last five years.

Over the 12 months to mid-year, output growth of 30 per cent was accompanied by an increase in power capacity of only 8 per cent. Local industry knows blackouts and rationing only too well.

There used to be no serious pollution problem—and by the standards of some Chinese cities Wuxi's are still minimal.

The toughest nut remains the fact that most local households are heated by coal. The goal is for 60 per cent of households to be converted to gas by 1990.

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# Nation rediscovers its heritage

## China's arts scene

MARIE MYERSCOUGH

CHAIRMAN MAO'S wife, Jiang Qing's Eight Revolutionary operas, acrobatics and the circus —China's bleak cultural offerings from 1966-76—represent the *10-year moratorium* on culture ironically termed the Cultural Revolution.

By comparison today the country is awash with arts events, hoth Chinese and foreign (in Beijing alone, purveyed through 130 museums and multi-purpose halls) as China enjoys its re-discovered heritage.

Some examples:

● ART: Artists are endeavonring to make up for the devastation of the Cultural Revolution: museums shut down, treasures destroyed; instead, ubiquitous pictures of fresh-faced Communist youth, red flags and factories, and portraits of Chairman Mao — and warped attitudes. Contemporary art is at an exciting stage: with the furore surrounding the Beijing Airport nudes over, and less emphasis on socialist realism and aversion to abstract art. In current exhibitions (at least three in any week) the avant-garde is represented by a group of local artists (with their unit's approval) and America's Robert Rauschenberg.

Each year hrings at least 40 *exhibitions of foreign art* — though mainly classical (the Louvre, Vienna Albertina collection, Berlin Museum). *China's pride in its Third* World *status ensures* adeqnate representation by developing countries. Despite inherent prudery about the naked body, a recent advert for nude models at the Beijing and Sbangbai Art academies drew over 1,000 applications.

● MUSIC: Since Seiji Ozawa conducted the first concert by the Beijing Philharmonic immediately following the opening up in 1978, the city's musical life has continued its remarkable recovery. Beijing, alone, has seven orchestras plus various ensembles, aome of whom provide the excellent classical music entertainment in the new hotels. Apart from the conservatories in the major cities whose graduates are *scooping up prizes at inlernational* music festivals abroad Beijing also possesses 40 music schools 10,000 youngsters *enrolled.*

Piano ownership has jumped ten-fold from 2,000 in 1984 to 20,000 this year. Local musical *life is enriched by visits* of some well-known orchestras (Berlin, Boston, Philadelphia, BBC Symphony) and famous conductors. *Traditional Chinese* music, too, is well catered for.

### Pop concerts

Pop music: despite the official worry about the decadence of Western pop music and the "*spiritual pollution*" *campaign*, pop — particularly Taiwanese or Hong Kong — thrives. Every self-respecting taxi driver has *his cassettes to hand, ready* to assault the ears of foreigners expected to appreciate their own culture. Pop is relayed *through loud-speakers* in locations where only *The East is Red* blared out not many years hack.

*The acquisitinn of the latest* Japanese hi-fi is an undisguised ohjective of many technical exchange groups visiting ahroad. Seeing the real thing, though, is still a pollutant risk — few foreign groups have heen permitted since the opening up.

The clampdown after *Wham*'s concert leading to the cancellation of *Men-at-Work* was probably connected with the bebaviour of the over-exuberant audience — pop concert dancing seen as "wild abandon." Discos are approved, hut only when run by one's unit.

A scene from "WM," Wang Peignng's controversial play that was closed down by the authorities

● THEATRE: Five major theatre companies in Beijing — of which *the People's Art* Theatre is probahly known ahroad — regularly perform modern plays, nsually in buge *halls, affirmation of the Socialist* call to cater to the masses. Arthur Miller's Chinese version of *Death of a Solesman* in 1983 hrought in its *train translations* of other well-known Western playwrights.

Other foreign companies have followed London's Old Vic, the first to play in English (*Homlet* in 1979). An interesting new generation of playwrights is gaining fame by writing from its own experience and tackling previous taboo subjects or techniques and breaking away from prescribed Socialist formulas.

The avant-garde has made its debut with controversial productions. *Bus Stop*, a Beckett-inspired piece hy Goa Xingjiand and Lin Zhaohna, depicts people waiting 10 years for a bus which never comes — an allusion to the waste of the Cultural Revolution. *Wild Man* by the same duo, is a multi-media piece about environmeotal issues and while reminscent of the 1960s Western avant-garde, was an artistic hreakthrough. However, the *most* recent provocative play was Wei Peigong's *WM* (*women, meaning* "*we*"). This portrayed seven young men who return to Beijing emhittered after their enforced *years spenl in the countryside* during the Cultural Revolution.

### New life-style

Apart from the overt criticisms of the System, the portrayal of their new urhan life-style with drunkenness, lawlessness, divorce — even suicide — runs counter to all Socialist dramatic conventions.

Ying Rouchenng, one of China's leading directors (known Internationally) and actors (Willy Loman in *Death of o Salesmon*, Kuhlai Khan in *Marco Polo* series) man of the theatre and leading authority on the *arts* in *China*, says in effect the theatre has never had it so good: "We are enjoying a greater freedom than ever *before*. We *can* say and do a lot without being provocative.

"Free of previous shackles, in every theatre company young people are trying to do new things, playwrights writing ahout every corner of society, every part of history. *I feel* encouraged at the hright future."

● DANCE: After traditional Chinese dance, Western ballet, considered "safe," has a keen following. (Ballet in China owes its origin to white Russian emigrés, thus, a Russian influeoce prevails.) The Beijing Classical Ballet company recently bad Nureyev along, drawing praise ahout their good physique as dancers.

Visiting Western companies included London's Royal and Festival Ballets, Danish Royal Ballet, the companies of Dresden, Stuttgart and Canada. *Modern dance has nol been* neglected and Lahan Workshops have been conducted by teachers from London. Among this year's visiting companies was Trisha Brown. But the highlight, Alvin Ailey crealed a sensation, "their thinly-garbed bodies exuding more sensuality than we are used to," according to one fan. It also *generated some lalent* entrepreneurial instincts in the thriving black market in tickets

● OPERA: Traditional Chinese opera is back, though not yet playing to packed houses—the missing audiencea attributed to *supression during the* Cultural Revolution leaving an entire generation knowing nothing of the form.

A receot attempt in Beijing to liven up its image included laser beams, synthesisers, up-beat songs — and *lots of dry* ice. Western opera has its fans with visits by touring opera companies and a recent home-produced *Pagliacci*, hy the Beijing Central Opera House directed by Italian maestro, Gino Bechi.

● FILM: This was the first target of the Cultural Revolutioo with Jiang Qing's purge on "Capitalist films" at the Shanghai Film Corporation. *Later most films* were labelled "poisonous weeds" and hanned, leaving little, apart from the movie version of her Revolutionary operas.

It is sald that Chinese newsreel crews risked their lives in January 1976 when they shot scenes of the national mourning for the death of Zhou Enlai.

Today old movies are being re-made or readied for re-release. The medium is flowering with at least 20 major film studios and nearly as many co-productions with outside countries.

● TELEVISION: The magnetic effect of today's perfect picture qnality has produced a hoom in television ownership (despite the prohihitive cost, a year's wages). An indication of the demand is the 1m sets exported from Japan and trapped at Shanghai docks through transportation abortage.

The anthorities' concern at the national addiction was voiced at a recent two-week *national symposium. This* covered such topics as plays (1,300 written in 1985) often low quality and the dilemma *posed by making television* serve Socialism and providing relaxation for people after a day's work. (Indeed, one of the reasons for the decline *in* in visiting businessmen's invitations to the opera etc, may he the Chinese host's wish to get home to the new television.)

● LITERATURE: The Party's desire to control this area causes headaches and confusing guidelines. After the wholesale burning of books in the Cultural Revolution when even Shakespeare was considered subversive, stores are now thronged and a vibrant publishing industry in 1984 printed 6.5bn books. The volume of translations of foreign authors has outstripped neighbouring Japan. It coincides with the *establishment* of *courses* in Comparative Literature at University and complemented by such events as the recent *symposium nf American and* Chinese writers.

The Fourth Chinese Writers' Congress in January 1985 was regarded *as* a landmark for many reasons including high attendance, frankness of views and open calls for greater literary freedom. A spate of new magazines — some of dubious quality — pushed np 1984 circulation to 4,000 titles.

However, there is another side to this rosy picture. State control over art and literature make working conditions difficult. Among other constraints, writers endure the unfair royalty system (flat rate irrespective of sales) and copyright rules (fledgling legal system). Worse, they are the most vulnerable victims of swings in political thought.

Double standards can apply where artists are denied freedoms granted to visiting foreigners. Painters complain about restrictions on selling their work. In April this year, the Minister of Culture, Zhu Muzhi's promise to actors, screenwriters and direclors of greater freedom in their professional life, was undercut by the rider that: "the State would continue to play a leading ideological and political role in cultural affairs. Policies and plans would be worked out and regulations set forth for individuals and collectives . . . . the principle of distribution *according to work would* be strictly carried out."

The Government attitude relating freedom in the arts to abuse and decadence is particularly illustrated by pop music. As a warning, China's leading pop singer, Zhang Xing, recently sentenced to 15 years imprisonment for "immoral behaviour" (two fans pregnant). *Criticisms also* centred on "his stage manner". Meanwhile his tapes continue to top the charts — cassettes circulating unchecked being one area of pop culture elready beyond Party control.

The arts, then, in reality, are only as free as the *Party* allows. Official policy dictates that the arts should "offer *choicest mental nourishment* . . . . advance Socialist modernisation, foster high moral virtues," and so on. Confusingly, it also still adheres to Chairman Mao's "letting 100 flowers blossom and 100 schools of thought contend, while simultaneously offering 'guidance and suggestions to defective works, harmful to the people.'"

The Government's cultural *policies* are carried out by the various divisions within the Ministry of Culture. Since the opening up, inconsistent *guidance* (*promises* followed by warnings) has left writers and artists jittery. Suddenly an event is labelled "unhelpful" and *cancelled*, *writers* denounced, even by colleagues, or sent to re-mould their views.

The memory of the Cultural Revolution is too painful to allow complacency. Artists and writers were the worst hit *victims* of the thuggish Red Guards' rampage across the country. Ranked *among* Mao's "stinking intellectuals" as worse than *spies and feudal* landlords, there were few who escaped. In a death toll difficult to estimate but likely in tens of thousands, they were persecuted, tortured, driven to suicide, killed. Others bore varying degrees of humiliating jobs, often in remote areas. Their works were destroyed.

The hrutal roughing-up (and broken limbs) *of artists such* as members of Beijing Opera Company is not untypical. Several playwrights including the famous Lao She (*The Rickshaw Boy*, *Teahouse*) were hounded to suicide. Outsiders *cannol estimate* the scale and enduring effects of the individual suffering. Zho Zhongchun, vice-president of the *Beijing* Opera explains: "Many actors and actresses do not want to talk ahout the past, it is too sad. We want to look forward to the future—a hright one."

### Optimism

Thus, artists will go along with the alternating open-closed atmosphere because they do not wanl to precipitate any return to those dark days. Compared to eight years ago everyone concedes, the freedom is remarkahle. It has been gained at a great price. The consensus among artists is that it would be foolhardy to risk losing it.

While *censorship* still exists in all areas of the arts, nonetheless as Ying Roucheng maintain, the mood is not of despondency. *Artists and* writers are realistic. As one writer says: "People want progress and reform and do not want to npset the applecart. We have more freedom than when I first atarted my carecr in the 1940s. The hest way to interpret China is to think of us trying to combine the Renaissance, Reformation and Industrial Revolution all into one decade. The political restrictions onr writers have are not so different from those of Shakespeare or Moliere."

As China, the great giant, stirs, leaving behind its turbulent past, and cautiously eases *its way fnrward*, tensions and insecurity seem inevitable.

What the nation aspires to—and the means by which it *seeks to attain it*—*cannot* but pose interesting fundamental questions and challenge some nf our Western assumptions.

Ying *Roucbeng's description* of his country as "emerging from its Elizabethan era political straltjacket" has jnst been dramatically *illustrated*. The highly acclaimed play, *WM*, was suddenly closed down by the Beijing anthorities without warning—"Revolution is not a dinner party."

### Cultural and political landmarks

**1957**
First Mao campaign against intellectuals

**1966-76**
Ten Years' Catastrophe: The Cultural Revolution
Best-seller: Thoughts of Chairman Mao
Popular operas: Taking Tiger Mountain by Strategy, Red Detachment nf Women, and other works

**1971**
Lin Biao incident

**1976**
Death of Zhou Enlai; Tienanmen *Square riots;* death of Mao Zedong; overthrow of Gang of Four

**1978**
Beginning of recovery of arts and culture; Seiji Ozawa conducts Beijing Philharmonic Symphony Orchestra; Democracy Wall

**1979**
Deng Xiaopong's programme *of change* and Dissident Movement

**Late 1970s-early 1980s**
"Literature of the Wounded" (writers' personal accounts of Cultural Revolntion)

**1983**
*Arthur Miller* directs "Death of a Salesman" by Beijing People's Art Theatre
Deng's tightening np. *ideological and cultural purge*, "spiritual pollntion" campaign

**1984**
National People's Congress, Prime Minister Zhao Zugang reiterates continuation nf policy of openness

**1985**
Fourth Writers' Congress calls for greater freedom; *first major pop concert* by Wham! Anxiety andience reaction sets the clock back. Men-at-work cancelled

City families in modern China: left, toddlers play with their father in central Shanghai, while right, a mother and child enjoy the sunshine in a Peking park

# 7,500-mile journey of discovery

## Solo travel in China

ALLAN ELLIS

FOR THE independent traveller who eschews the package-tour cocoon, China offers a middle way, in cost and facility terms.

I travelled 7,500 miles across 12 of the "Eighteen Provinces," the traditional Han Chinese heartland south of the Great Wall, through the three north-eastern provinces, once Manchuria and through Inner Mongolia. I also went to the great self-governing municipalities of Peking, Tianjin and Shanghai.

The tourism infrastructure though rudimentary in parts, is none the less adequate. Booking tickets for trains, aeroplanes, ships and buses is not as difficult as some claim, particularly if you personally make the bookings. To cope with tourism growth, China is building hotels.

My average expenses were £15 a day. Of this, £10 was for accommodation and the balance for food and fares.

I was lucky to secure hotel rooms, inexpensive, in Peking, Tianjin and Shanghai, a dormitory bed, most inexpensive, in Xi'an, and compartively expensive rooms in Nanjing and Guangzhou (Canton), for those, with Guilin, are tourism bot-spots to be treated warily in the high season (May, August, September and October, this last being the month for the highest volume of visitors).

I sweated a little to find hotels at Dalian and Suzhou. Elsewhere, however, in the rest of the total 28 centres at which I stayed, I had no serious problem finding a room.

### Accommodation

Broadly speaking, accommodation is offered in three tiers though terminology and substance often interchange:

● In some cities, hotels (*luguan*) of Western style and standards exist on a scale from modest Friendship Hotels to luxury giants, part foreign-owned and operated. A double room here can cost per night from £10 to £12, for example at Qingdao's 1979-built Huiquao on China's reputedly finest beach, Luoyang's especially friendly Friendship Hotel, and Shanghai's YMCA, which is being renovated, to £40 at the White Swan, Guangzhou, and £53 at Shanghai's Peace Hotel.

● In many towns the principal accommodation is the town guest-house (*binguan*). These are often old hotels, sometimes relics of a byegone age, sometimes aimed initially at Overseas Chinese and accordingly known as the Hua Qiao or Overseas Chinese hotels. Or they may be newer premises aimed at tourists from abroad. Doubles here cost about £10 a night.

The Hua Qiao at Ningbo, fondly remembered for its friendliness and cuisine, is typical. A handsome relic is Shenyang's Liaoning Guest-house built in 1927 by the Japanese and loaded still with art deco and chrysanthemum motifs.

Some *luguan* and *binguan* offer mixed-sex dormitory accommodation at about £3 a night.

● Still other *binguan*, aimed at domestic travellers, admit foreigners and cost as little as £3 a night for a bed in a double, but some are not always comfortable here.

As a general guide, book tickets on trains, aeroplanes, buses, and waterborne craft directly yourself though if you cannot face the scrummage, China International Travel Service offices will book for you. Book ahead as far as possible in time.

To meet the people, travel by hard-seat on the trains. Hard-seat and hard-sleeper are no ordeal.

Travelling companions on surrealistic journeys to the end of the night reveal much about life in China.

Travel by train, in terms of seat availability and booking procedures, is not as difficult as some suggest but you will need patience. There is pressure on some routes and there can be problems booking tickets until you get the bang of it.

Ask your hotel reception-desk for the appropriate train time and train number. Write these in roman script on paper.

At the station, tell a police officer or traveller your destination and travelling day (*jintian* today, *mingtian* tomorrow) and indicate your wish that the appropriate booking - office ticket-window be pointed out to you.

Join the queue and on eventual arrival at the window proffer your train-time paper, cash, and passport (clerks checked my visa validity before issuing tickets on a half-dozen occasions).

Occasionally police officers offer to buy your ticket on your behalf or, abduct you to the head of the queue.

You will receive a ticket and a seat-reservation slip. As a foreigner, you will probably have to pay a travel surcharge.

Foreigners must pay hotel, air and train charges (but not bus or waterborne charges) in Foreign Exchange Certificates (FECs), not in general circulation *renminbi*.

Fares over huge distances are cheap compared with the West, even when one adds in the premium charged to foreigners My longest rail trip was 870 miles, took a day and cost £11 hard-sleeper. A week's cruise up the Yangtze from Nanjing to Chongqing cost £38 excluding food.

This autumn new visa rules were introduced. Current arrangements should be checked with the China National Tourist Office, which issues an information circular.

With a tourist visa one may visit 100 cities without further formalities but to travel elsewhere you need an Alien's Travel Permit from the Public Security Bureau, the police, obtainable, after arrival in China.

Essentially I had no problems of mobility and found myself as free as a bird. Once inside China I was issued with a tourist visa and with extensions without problems.

● Travel Notes: An invaluable book is China—A Travel Survival Kit, by Alan Samagalski and Michael Buckley (Lonely Planet, 1984; £9.95). The Berlitz Chinese for Travellers, is useful (£2.45);

China National Tourist Office, 4 Glentworth Street, London NW1 (near Baker Street Underground Station), tele 01-935 9427.

Chinese Embassy Visa Section, 13 Weymouth Mews, London W1N 3FQ, tele 01-580 2268.

Do not drink unboiled water. For train travel buy a packet of tea and a sealed drinking-jar (80 fen). Rail staff provide boiling water. Some Chinese passengers insist on proferring their own jars to foreign guests. Take a universal plug.

London-Peking flights at £250 are available on Aeroflot. Hong Kong travel agents offer discounted Hong Kong-London flights on Third World scheduled airlines at £240.

In Hong Kong, adequate accommodation is available at apartments in Chungking Mansions, at the lower end of Nathan Road, Kowloon, at about £10 a night. When changing money in Hong Kong use banks —or money-changers who do not charge a commission.

### Visitors and tourists to China

(including Overseas Chinese and compatriots from Hong Kong and Macau)

| | |
|---|---|
| 1978 | 1.8m |
| 1984 | 12.9m |
| 1985 | 18.0m* |

* Expected. First half, 8.97m arrivals, a 58.9 per cent rise on the corresponding period of 1984.

**CHINA'S TOURISM MARKET (1984)**

| | |
|---|---|
| Japan | 368,000 |
| US | 212,300 |
| Australia | 72,600 |
| UK | 62,100 |
| West Germany | 34,200 |
| Canada | 30,300 |
| France | 27,000 |
| Switzerland | 16,000 |
| Italy | 15,900 |

**UK TOURISTS TO CHINA**

| Year | Total arrivals from UK | Package tourists |
|---|---|---|
| 1979 | 16,289 | 3,420 |
| 1980 | 28,649 | 4,221 |
| 1981 | 41,754 | 6,172 |
| 1982 | 42,000 | 14,611 |
| 1983 | 50,000 | 9,522 |
| 1984 | 62,100 | 11,222 |

AFTER LIBERATION, China admitted only business and sponsored travellers. In 1974 specialist tour packages were introduced, when one could travel in China on £1 a day.

In 1978 Deng Xiao-ping launched his "open" policy. A year later package tourists started to enter and the Trans-Siberian Railway route into China was opened to them.

In 1981 China began issuing tourist visas to independent travellers, at Hong Kong and through its embassies.

Mr L. Y. Yang, director, China National Tourist Office, London, says China's total foreign currency earnings from tourism in the seven years 1978-84 were $5bn (£3.6bn). Growth is indicated on the above tables.

# Tips for overseas visitors

## Business Travel in China

DAVID DODWELL

ONE BRITISH executive arrived recently at the airport in Hefei, the provincial capital of Anhui, after two days of work in the inland city. He was intending to take an evening flight to Shanghai for another day's work before travelling on to Hong Kong and Singapore.

News in the next few minutes left his carefully planned Asian travel programme in tatters. The CAAC aircraft due to fly in from Peking to take him to Shanghai had not yet arrived from Shanghai on its way to Peking. The best he could expect was a flight the next *afternoon*—and if that was cancelled, as was possible, then there was no further flight to Shanghai for three days.

Ha was unable to get to his meetings in Sbanghai—and had no speedy way of telephoning ahead to inform colleagues. His onward connections through Hong Kong to Singapore were in jeopardy. His air ticket was looking less than useless, and important meetings elsewhere in *Asia* would have *to be re*-arranged at best, and might be lost at worst.

Rather than remain at the mercy of CAAC, China's notoriously unreliable national airline, he set *about* disaster management. He bought a ticket for the following morning's 10-hour train journey to Shanghai — slower than the plane journey, maybe, bnt at least reliable. His Shanghai meetings could not be rescued anyway, and at least he would ba in Shanghai in time to catch onward *connections*.

One of the main problems for overseas business visitors is how best to keep *to their* itineraries. There can he no guarantee against the problems that arise, but here are some tipe worth remembering:

● **Travel into and ont of China:** Use an international carrier if possible, A number of European carriers fly direct to Peking. Japan Airlines, Northwest Orient and Cathay Pacific fly direct to Shanghai. These tend to leave and arrive on time. Return bookings can he arranged in advance outside China.

● **In China's interior:** Only CAAC operates services at present, though a number of Hong Kong-based carriers are currently applying for licences to operate aervices to about 18 inland cities.

When travelling from Hong Kong into the interior rather than to Shanghai, Tianjin or Peking, it is usually necessary to fly via Canton. This can involve headaches because making onward reservations from Canton is often not possible until you have physically arrived in Canton. Similarly, making return reservations is impossible unless dona in Hong Kong.

It is worth noting therefore that apart from CAAC's scbeduled services, it operates a large number of *direct* charter flights between Hong Kong and cities in the interior. *These are* intended primarily for foreign tour groups or Hong Kong residents visiting relatives, and seats are rarely offered to foreign travellers unless they are specifically asked for.

These charters will normally fly into a city's military rather than civil *airport—a point* worth noting if anyone is meeting you. Charter services tend to he less nerve-racking becausa they use newer aircraft, usually Boeings or Tridents, rather than the rickety Antonovs and Ilyushins ahuttling on the scbeduled inland routes.

● **Reconfirming flights:** This is essential, because CAAC bas no computerised booking capability except for Peking, Shanghai and *Canton*. Flights are regularly overbooked on the assumption of a certain number of "no-shows." Passengers with tickets perfectly in order can find themselves bounced. It is therefore important to reconfirm meticulously—which means making sure a ticket has all of the right stamps and endorsements on it.

It is also a good idea to arrive early, because the principia of "first come first served" applies on *overbooked flights*.

Never accept at face valne assurances from CAAC officials that planes are running on time. Journeys to airports are often long, and waiting facilities range from awful to non-existent, so it is preferable to remain in the comparative comfort of your hotel until you are absolutely certain that a plane is arriving at a particular time. It is worth noting that most inland services are shuttles operating like that from Shanghai to Hefei and Peking, which sbould return on the same day via Hefei to Shanghai. It is therefore possible to get advanced warning of daiay by asking about progress on other atages of the shuttle.

Ask sponsor or hotel staff to phone tha airport to ask about departure times: there is always a special number, but interrogation will invariably hava to take place in Chinese.

● **Poor weather and peak travel seasons:** for five months every year, thick fogs shroud the city of Cbongqing, over balf of the *scheduled flights into* tha city are cancelled during that time. The same problem occurs in a large numher of Chinese cities, and is aggravated by the fact that few airports have radar guidance systems.

A business itinerary that includes such cities is almost certainly doomed to serious delay, which must be allowed for. Make sure it is essential to include the *city* in the itioerary, and try to visit it when the odds on disruption are lowest. Trains would obviously he slower, but introduce an invaluable eiement of reliability.

During the peak tourist season from lata September into November, all flights around China are congested with tour groups, and hotels are fnll to the gunnels with them, *Booking* well *in* advance is essential. Even then, most hotels function to cater for tour groups, and business executives travelling alone will find themselves pushed into box rooms.

*If* a plan is cancelled and you have to remain overnight in a city, CAAC make no arrangements for hotei accommodation, so this may require prompt action if a room is to be rescued.

● *Your schedule:* leave a number of days at the end of itinerary as padding to make sure you can iose time, without missing onward international conections.

● **Business itineraries:** Most will either start or finish in Hong Kong, so *flights direct to* the British territory are often full. If this is the case, then fly instead to Canton. *From there,* onward travel to Hong Kong is increasingly easy: several trains leave every day and *taka* tbree hours: hydrofoils leave every afternoon at around 2.00 pm and also take *about three* hours: taxi drivers either at the airport or at tha hotels will also drive you to the *Hong Kong* border crossing in three bours. From there, the transfers on to Hong Kong's *Kowloon* Canton railway is simple.

For foreign passport holders, customs close at *7.30 pm* in the evening, so road departure from Canton aftar 4.00 pm ia raah.

Many flights arrive in Canton late in the afternoon, in which case a marvellous way to get back to Hong Kong on tima when all else aeems to have failed is on the overnight Pearl river cruise. This leaves around 9 pm, and arrives in Hong Kong before fl am.

● **Travel by train, road or boat wherever possible:** from tha above, it should be clear that air travel is fraught with aggravation in China. If the slower pace can he accommodated, and tha *distances* to be covered are not too great, then trains and ferries are punctual, *comfortabla (in soft class)* and often fascinating.

Coastal ferries ply regularly between all of the open coastal cities. Note that on both trains and ferries, it will probably be necessary to share a cahin. Chinese people do not share witb westerners a highly refined sense of privacy.

Unlika aircraft, trains and ferries really do leave on the dot, so arriving late is rash.

● **Sponsoring organisations:** as a husiness visitor, you will almost certainly have a *sponsoring organisation*. Apart from acting as hosts, they are invaluable for helping to unravel the hureaucratic and other tangles. They are particularly helpful confirming or rearranging onward bookings. They *know* the system, have clont within it, and so are well placed to pull strings when *they need* to be pulled. Without them working as local "fixers" many of the day-to-day hureaucratic problems linked with high-speed travel can become ontlandishly time-consuming.

● **Onward communication:** telexes are rare outside China's three main cities, and hotels will often have just one *telephone* line.

International calls will have to be booked long in advance, and may involve long waits in your room. Hotels often charge *for* receipt as well as despatch of telephone calls and telexes, and surcharges ere snbstantial.

Calls to Hong Kong are cheaper and quicker, so it can be helpful to ask colleagues there to pass messages on to head office.

● **Meal times and running water:** *Important to find out* when hotels stop serving meals. Often it is remarkahly early. *Many hotels* in the interior only have running water for an hour or two morning and evening. *Using* the contents of a thermos flask to wash off the day'a sweat may be tha only solution if you *fail* to discover when water will be running.

● **Carry cash:** Very few cities in China *can* cope with plastic money, so it is important to calculate generously before going into the country how mncb cash you will need. Outside main citiea, botels offer no foreign exchange service, and Bank of China hranches are often difficult to find.

Locals often confuse the People's Bank with the Bank of China, so it is important to emphasise the distinction. *Few* locals usa the *Bank of China*, which is exclusively a foreign exchange bank, so do not be surprised if they do not know where it is. It will almost certainly not be a high street branch.

Always assume that getting cash will take time, and that mucb tima can be saved if your sponsoring organisation can do the legwork for you.

● **Visa expiry:** Ensure your sponsoring organisation arranges visa clearance well beyond your planned departure from China.

● **If you are ill:** Medical treatment in Chine furnishes some of the most vivd horror-stories going. The best advice is to be more than usually careful not to get *ill* — avoiding suspect foods, water, ice. If once smitten, try to get out to *Hong Kong if it is in any way* possible.

For minor ailments, take Lomotil in case of diarrhoea; aspirin or an equivalent in case of a fever; mosquito repellent; a broad spectrum anti-fungal cream; sterile eye drops and disinfectant.

**Arranging a travel itinerary—and sticking to it—is one of the major headaches for any overseas business executive visiting mainland China. There are no fail-safe solutions.**

# The high cost of business offices

AFTER surveying the Chinese office and home rental landscape, a West German businessman, who is moving to Peking to improve his country'a penetration of the China market, had a short and sbarp assessment: "It ia ridiculous."

Tha businessman has found that he is captive in a seller'a market, and, instead of being tha bargain basement that many foreigners expect, the Chinese capltal is one of the most expensive places in the world to do business.

New China hands will be lucky to find any accommodation other than a hotel room. The first block of 72 apartments for foreign business people opened here two months ago, and, despite, an annual rent of US$72,000 (plus $300 a month in management fees), the three-bedroom apartments have been over-subscribed.

Until this year, foreign business people had no choice hut to live in and work out of hotel rooms, and found themselves subject to arbitrary price rises. The Peking Hotel, long a home for foreigners, has lifted its room charges on 12 occasions in the *past four years*.

In the middle of tha year, the city celebrated the opening of its first genuine office hlock, the 31-storey Citic (China International Trust and Investment Corporation) complex, where businesses pay high-rise rents for the privilege of their position in Peking'a tallest *building*.

## Top prices

Tha Citic complex was also subscribed, though it, too, is charging top dollar prices. A square metre of office space is setting the tenants back at least US$1.18 per day, while apartment space rent is about $1.29 per square metre.

The expense has given business people moving into the complex a licence to complain. They tell of companies having bought furnishings to match the grean carpets that were to be laid throughout tha building. Then those companies discovered that their office was not to hava green carpets after all.

They also tell of the partitions that were going to be ceiling high for privacy's sake. That was until local fire authoritiea inspected the building, and ruled that ceiling-high partitions would be unsafe. However, many tenants who have successfully moved in say the *building's administrators* are responsive to complaints.

Those business people are at least glad to hava been emancipated from their botel rooms and to hava the luxury of cooking facilities. Others are still paying upwards of $100 a day for room that is a home et the Great Wall Hotel, generally conaidered to ha the city's best appointed, or less for lesser hotels.

## Salaries

Space is not the only expenaive commodity. Managers of several of tha 650 representative offices are seriously considering joining forces and refusing to pay increasea in salaries for Chinese staff, who receive only about one-eighth of tha amonnt paid—the rest goes into the government coffers.

"They are killing the goose that laid the golden egg," says an airline representative. "Paople can *only* take so much and we have had about as mnch as anyone can take."

*He says the Chinese* labour ia low-skill and high-cost, and the cost of importing office equipment has hecome a aerious problem. Importing the office car means manoeuvring around a financial obstacle course, with tha present import duty 200 per cent.

All of this and more led a report by European Economic Community embassies and businesses in China to conclude that Peking offers substandard services and accommodation at prices that compare badly with *New York*, London and Tokyo.

There are plans for several mora office blocks, which sbould aasa the accommodation problem, but will not necessarily lower prices. A representative of one project under way saya: "We could charge any price wa like" for the space, though "wa aren't going to rip off people."

The Peking Planning Commission estimates that about 6,000 apartments and 3,000 offices sbould be available for expatriates by 1990, but tbe foreign population is already over 10,000, and new representative offices are opening at a rate of about 100 a year.

ROBERT THOMPSON